

Exhibit No.:

Issues: Class Cost-of-Service  
Rate Design  
Witness: James C. Watkins  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Direct Testimony  
Case No.: ER-2008-0318  
Date Testimony Prepared: September 11, 2008

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**DIRECT TESTIMONY**

**OF**

**JAMES C. WATKINS**

**UNION ELECTRIC COMPANY**

**d/b/a**

**AMERENUE**

**CASE NO. ER-2008-0318**

**Jefferson City, Missouri**

**September 2008**



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**OF**

**JAMES C. WATKINS**

**UNION ELECTRIC COMPANY d/b/a/ AMERENUE**

**CASE NO. ER-2008-0318**

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1           A.     The purpose of this testimony is to sponsor the Staff's recommendations in its  
2 Class Cost-of-Service & Rate Design Report filed September 11, 2008, regarding shifts in  
3 class revenue responsibility, rate design changes, the related changes to the rate components  
4 of each AmerenUE rate schedule, and AmerenUE's VGP.

5           Q.     What are the Staff's recommendations?

6           A.     Based on the Class Cost-of-Service Study results, the Staff proposes no  
7 revenue shifts among classes, so that the current revenue relationships among the classes are  
8 maintained. Because there are no known flaws in AmerenUE's rate design, any Commission-  
9 ordered overall revenue increase should be implemented as an equal percentage increase to  
10 each rate component of each existing rate schedule, i.e., no rate design changes. The Staff  
11 also recommends that, unless AmerenUE provides evidence of the effectiveness of its VGP, it  
12 should be terminated.

13 **CLASS COST-OF-SERVICE**

14          Q.     What are the results of the Staff's Class Cost-of-Service Study?

15          A.     The results of the Staff's Class Cost-of-Service (CCOS) study for AmerenUE  
16 are summarized in the table below. The table shows the increases (and decreases) necessary  
17 to equate each class' current rate revenues to the cost of serving that class (assuming equal  
18 rates of return) at the overall level determined by the Staff's Cost Of Service (revenue  
19 requirement) Study filed on August 28, 2008.

|                        | Residential  | Small<br>General<br>Service | Large<br>General/Small<br>Primary<br>Service | Large<br>Primary<br>Service | Large<br>Transmission<br>Service | System<br>Average |
|------------------------|--------------|-----------------------------|--|-----------------------------|----------------------------------|-------------------|
| Revenue<br>Deficiency  | \$50,989,472 | -\$1,458,449                | -\$16,379,564                                | \$8,715,910                 | \$9,595,063                      | \$51,462,432      |
| Required<br>% Increase | 5.62%        | -0.60%                      | -2.63%                                       | 5.36%                       | 7.34%                            | 2.46%             |
| Required<br>% Increase | 3.16%        | -3.06%                      | -5.09%                                       | 2.90%                       | 4.88%                            | 0.00%             |

1           The last row in the table shows the revenue-neutral shifts that would need to be made  
2 to equalize class rates of return at AmerenUE’s current level of revenues prior to increasing  
3 all rates by an equal percentage, if the Commission orders a different change in AmerenUE’s  
4 revenues.

5           **RATE DESIGN**

6           Q.     What Rate Design changes do you recommend?

7           A.     At this time, I am reluctant to make any recommendation for disproportionate  
8 changes to the permanent rates of any of the classes. It is my opinion that the revenue shifts  
9 indicated by the class cost-of-service study, given the quality of the input data, may not rise to  
10 such a level of significance that disproportionate adjustments to the rates are required at this  
11 time.

12           Because there are no known flaws in the structure of AmerenUE’s rate design, I do not  
13 recommend any changes in this case.

14           **VOLUNTARY GREEN POWER PROGRAM**

15           Q.     What is the Voluntary Green Power program (“VGP” or “program”)?

16           A.     It is a program where AmerenUE customer’s can choose to pay AmerenUE to  
17 purchase Renewable Energy Credits (RECs). AmerenUE markets the VGP as the Pure Power  
18 Program.

1 Q. What changes should be made to the VGP?

2 A. Staff is concerned with the efficacy of the VGP in its current form, since much  
3 of the money collected pursuant to the program is possibly lost in the cost of administration,  
4 and the stimulation of “green” generation due to this program is questionable. Staff  
5 recommends that the Commission require AmerenUE to produce an accounting in its rebuttal  
6 testimony in this case of how much of its customer's VGP payments actually were paid to  
7 “green” electricity producers so that the Commission can determine the appropriateness of  
8 continuing the VGP. If the program is continued, Staff recommends that the Commission  
9 order AmerenUE to disclose in its tariff the amount of the customer’s VGP payment retained  
10 by AmerenUE for its administrative costs, and to account for VGP revenues and costs above-  
11 the-line. In addition, if the VGP continues, the Commission should require AmerenUE to  
12 disclose to all participants the percentage of the payment that actually goes to “green” energy  
13 producers.

14 **RELIANCE ON OTHER STAFF**

15 Q. What reliance did you place on other Staff members?

16 A. Experts typically rely on the work of others to determine the appropriate class  
17 revenue shifts to more closely align class revenues with the cost of serving each class, and the  
18 related changes to the rate components of each tariff. I did so respecting Staff’s direct case. I  
19 relied on Mr. David Roos and Mr. Michael Ensrud for preparing the Staff’s Class Cost-of-  
20 Service & Rate Design Report (Report) filed in this case. The Report is based on their work  
21 and analysis performed in this case. This work was performed under my general supervision.  
22 Based on my experience working with them, my familiarity with the quality of the work  
23 products they produce, and my own experience with class cost-of-service and rate design

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1 | issues, the analysis presented in the report is reasonable and reliable for determining the  
2 | Staff's rate design recommendations.

3 |         Q.     Does this conclude your direct testimony?

4 |         A.     Yes, it does.

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