

Exhibit No.:

Issues: Variance requests for Brentmoor at
Oaktree and River's Edge Retirement
Communities

Witness: Philip B. Difani, Jr.

Type of Exhibit: Direct Testimony

Sponsoring Party: Union Electric Company
d/b/a AmerenUE

Case Nos.: EE-2004-0267 and
EE-2004-0268

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. EE-2004-0267 and
CASE NO. EE-2004-0268**

DIRECT TESTIMONY

OF

PHILIP B. DIFANI, JR.

**St. Louis, Missouri
August 2, 2004**

MISSOURI PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a)
AmerenUE for Metering Variances to) Case No. EE-2004-0267
Serve Brentmoor at Oaktree, and to Serve) and
River's Edge Properties, L.L.C.) Case No. EE-2004-0268

AFFIDAVIT OF PHILIP B. DIFANI, JR.

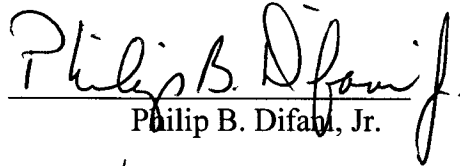
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Philip B. Difani, Jr., being first duly sworn on his oath, states:


1. My name is Philip B. Difani, Jr. I work in the City of St. Louis, Missouri, and I am a Consulting Rate Engineer in the Rate Engineering and Analyses Department of Ameren Services Company.

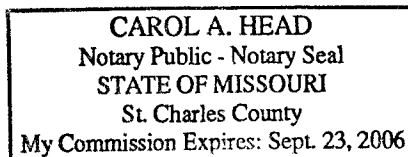
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 11, all of which testimony has been prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. EE-2004-0267 and Case No. EE-2004-0268 on behalf of Union Electric Company.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.


Philip B. Difani, Jr.

Subscribed and sworn to before me this 2nd day of August, 2004.


Notary Public



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DIRECT TESTIMONY

OF

PHILIP B. DIFANI, JR.

UNION ELECTRIC COMPANY

d/b/a AmerenUE

CASE NOS. EE-2004-0267 and EE-2004-0268

Q. Please state your name and business address.

A. My name is Philip B. Difani, Jr. My business address is 1901 Chouteau Avenue, St. Louis, Missouri, 63103.

Q. By whom are you employed?

A. I am employed by Ameren Services Company as a Consulting Rate Engineer in the Rate Engineering and Analyses Section of Regulatory Policy and Planning.

Q. Please summarize your educational background, work experience, current duties and responsibilities and professional affiliations.

A. This information is set forth in the attachment to this testimony.

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of this direct testimony is to discuss the Request for Variances from 4 CSR 240-20.050 by Union Electric Company d/b/a AmerenUE (“Company”) on behalf of Brentmoor at Oaktree and River’s Edge Retirement Communities. These variances were filed with the Missouri Public Service Commission (“Commission”) on December 22, 2003. In this regard I also respond to

1 the Electric Meter Variance Committee (“Committee”) recommendations to deny these
2 Variance Applications. My testimony will provide additional information gathered after
3 the initial variance filings which supports the granting of these variances by the
4 Commission.

5 **Q. Please provide your understanding of the parties requesting the**
6 **variances.**

7 **A.** Brookview Group Communities is the Company’s customer of record of
8 the Brentmoor at Oaktree facility consisting of 166 units located at 363 Jungermann
9 Road, in St. Peters, Missouri. River’s Edge Properties L.L.C. is the Company’s
10 customer of record of River’s Edge facility consisting of 147 units located at
11 600 River’s Edge Dr., in St. Charles, Missouri. Both facilities are businesses engaged in
12 providing senior living developments and related services for retired adults in what are
13 commonly referred to as retirement living communities. At this time, both facilities are
14 operational.

15 **Q. Please explain why AmerenUE has requested a variance from**
16 **4 CSR 240-20.050 in behalf of these communities.**

17 **A.** 4 CSR 240-20.050 and the Company’s Schedule 5 – Schedule of Rates
18 for Electric Service require separate metering of residential dwellings constructed after
19 June 1, 1981, unless the residential units are defined or considered to be a nursing home
20 that is regulated by Department of Aging, in which case master metering is appropriate.
21 For good reason shown AmerenUE agreed to assist these customers in requesting a
22 variance from the separate metering requirements described above.

1 **Q. Please comment generally about the ‘good reason shown’ for the**
2 **variance requests.**

3 A. As was detailed in AmerenUE’s Applications, these retirement
4 communities are advertised as ‘worry free living’, meaning for one monthly payment all
5 services are paid, which is a common business practice for these types of living
6 arrangements. The residents understand and desire a worry free living where meals,
7 planned activities, utilities, and transportation for outings are included in a single
8 monthly fee. The owners, in turn, are responsible for the costs of these services,
9 including payment to AmerenUE for use of electricity by the residents. These facilities
10 are clearly distinguishable from other multi-occupancy dwellings because: 1) again the
11 tenants will pay but one fixed monthly charge, 2) the average age of the residents is
12 significantly greater, 3) the personal care services provided and number of staff on duty
13 to perform these services, 4) the use of common facilities (exercise room and dining
14 area), and 5) safety rails, and various alarms.

15 Q. How do these living arrangements differ from, say, a multiple occupancy
16 apartment where the landlord/owner agrees to include the energy bill as part of the rent?

17 A. In typical multiple occupancy apartments, the owners do not provide
18 such a consummate array of services and nor do they have the significant staffs
19 dedicated to serving customer needs. For example, most such facilities do not offer
20 exercise rooms (except for perhaps a swimming pool) nor do they typically have
21 communal dining, safety rails, and security and safety alarms. Services provided by
22 nursing homes and hotels and extended stay inns come closest to this broad array of

1 services by the parties' senior retirement facilities. Such facilities are properly served
2 under the Company's applicable non-residential rates.

3 **Q. What have the owners' indicated about the residents of their**
4 **facilities?**

5 A. In addition to information that was provided in the original Applications,
6 the owners' have stated they also provide water, gas, maid and laundry service, and for
7 River's Edge, telephone, and cable service to the residents as part of their monthly fee.
8 The owners have stated that the residents are older, averaging in age from 80 years old
9 at Brentmoor to 85 years old at River's Edge, and that many residents suffer from
10 varying degrees of physical or mental impairments. However, the residents are all able
11 to perform the activities of daily life, and the owners of the communities provide the
12 above mentioned services and charge one monthly fee to assist in the residents' ability
13 to continue to live as independently as possible.

14 **Q. On what bases did the Committee initially reject the request for the**
15 **variances?**

16 A. Initially, Committee recommended that the request be denied. The
17 Committee's recommendation was specifically based on 4 CSR 240-20.050 and a
18 reference to the Public Utilities Regulatory Policy Act (PURPA). Specifically PURPA,
19 Subsection 2625(d)(3) was referenced which states that separate metering is appropriate
20 if:

21 *“(3) with respect to such portion of electric energy used in such unit, the*
22 *long-run benefits to the electric consumers in such building exceed the*
23 *costs of purchasing and installing separate meters in such building.”*
24

1 **Q. Please comment on the above quote as it applies to the parties in this**
2 **case.**

3 A. AmerenUE respectfully contests the Committee’s finding that “the long-
4 term benefits would exceed the costs of purchasing and installing separate meters, and
5 that the long-term benefits could be significant.” If the basis for the Committee’s
6 recommendation is the individual tenant’s ability to control its electric bill by exercising
7 control over its heating and air conditioning usage, the Committee is misguided. First,
8 at the River’s Edge facility, the temperature controls are encased with plastic,
9 preventing the residents from directly controlling the temperature in the units. At
10 Brentmoor at Oaktree such control is supervised by its staff, to prevent inappropriate
11 temperature settings. The owners have further informed AmerenUE and Staff that in
12 order to avoid the negative public relations and consistent with the intended living
13 arrangements, it would assume full responsibility for payment of all the bills associated
14 with the individual meters. There will not be any realistic opportunity for the tenant to
15 significantly control the costs associated with electrical usage.

16 Further, upon request, AmerenUE does provide customers with summary or
17 blanket billing (i.e., a summing of all bills for customer provided account numbers).
18 The owners of these facilities have indicated that they would request this type of billing.
19 As a result, the tenants would remain indifferent to the change in metering and billing as
20 recommended by the Committee. If the Committee presumed that the owners would
21 rebill the tenants for their electrical usage, AmerenUE’s tariff (see sheet 175) prohibits
22 the furnishing of electricity for resale with a separately identified charge. Therefore, the

1 owner will be unable to “rebill” the residents to reflect actual usage. Correspondingly, it
2 is unlikely that the tenants would modify or change their usage of electricity.

3 **Q Have you been able to estimate the costs associated with individual**
4 **metering as compare to master metering?**

5 A. AmerenUE has estimated its costs to install individual meters for
6 Brentmoor at Oaktree to be approximately \$29,900, or \$180 per unit. At River’s Edge
7 the estimated cost for individual metering is \$51,500, or \$350 per unit. The cost at
8 River’s Edge is higher due to additional facilities and equipment needed.

9 **Q. How much more will it cost River’s Edge to individually meter their**
10 **facility?**

11 A. The owners have indicated it would cost them between \$500,000 and
12 \$1,000,000 to rewire these units for individual metering. If these owners would borrow
13 the money the cost can be estimated, at least by means of an order of magnitude
14 analysis. In order to put an annual cost on this additional expense I will assume a
15 twenty year loan of \$750,000 (halfway between the estimated range of \$500,000 to
16 \$1,000,000) at an interest rate of 5% which would cost River’s Edge owners’ over
17 \$60,000 annually for twenty years. (One can also consider this as a twenty (20) year
18 mortgage payment of \$400 per year per unit for each of the 147 units). These
19 calculations clearly show the significant financial impact of rewiring this facility for
20 individual metering.

21 **Q. The Committee was of the view that the goals of conservation would**
22 **be met with individual metering. Do you agree?**

1 A. No. As I explained above, the owners desire, and the tenants desire, a
2 'worry free living' concept for these living arrangements. The owners have indicated to
3 the Company and the Committee that if individual metering is ordered, they would
4 request blanket billing for their customers and would in turn pay their tenants' bills.
5 When this occurs, there is no real opportunity to realize any benefits of conservation, if
6 any there were. It is my understanding that at least in one of the facilities, the tenants
7 are unable to even access any controls over their energy usage. These residents will not
8 see an energy bill and therefore have no real incentive to alter their energy usage. In this
9 respect, the Committee's conclusion that the granting of the variances is contrary to
10 PURPA's goals of enhancing conservation is unfounded. Furthermore, the costs to
11 install individual metering are very significant. I do not believe the significant costs to
12 install individual metering, and I will later explain the resultant increase in electric bills,
13 will exceed the long-run benefits as contemplated in PURPA.

14 **Q. Did the Committee reconsider its recommendation?**

15 A. Yes, it did. In a non-unanimous recommendation, the majority of the
16 Committee found that such a variance would result in unduly preferential rates for
17 electric consumers living in these units due to their ability to congregate their usage of
18 the Large General Service Rate, among the findings it previously made. The Committee
19 does not believe there are sufficient facts to distinguish between the communities and
20 other multiple-occupancy residential buildings that would justify preferential rates.
21 Last, the Committee does not believe the economic costs would exceed the long-term
22 benefit.

1 **Q. Would the monthly bills to the owners be different under the**
2 **residential rate and individual metering?**

3 A. Based on recent billing data gathered from the meters serving the tenants
4 units at Brentmoor at Oaktree, the individual tenant's average annual bill was \$176.71.
5 If the same such usage were billed under the residential rate with individually metered
6 units, the average annual bill would be \$291.49, an increase of 65%.

7 **Q. Why is the electric bill approximately 65% higher for the same**
8 **amount of energy on the Residential verses the Commercial rate?**

9 A. As the Commission knows, the energy rate differential is relatively small
10 between the Small General Service rate and the Residential rate. The reason for the
11 substantial difference in cost, however, is the customer charge based on 147 individual
12 meters versus the customer charge on the three (3) master meters now on the
13 commercial rate and, to a lesser extent, the seasonal billing provisions under the
14 commercial rate.

15 I should also address a change in billing for these customers. At the time of the
16 variance request, the Brentmoor at Oaktree owners were served under the Large General
17 Service Rate as it was anticipated that their usage would be over 100 KW. As it turned
18 out, the demand remained under 100 KW and it is therefore more beneficial to the
19 customers to be on the Small General Service Rate which is how they are billed
20 currently. If the variances are not granted and these customers are served by individual
21 meters and take service under the Residential rate, their cost will increase. The
22 Committee's concern seems to be that the residents are not otherwise entitled to service
23 under a non-residential rate, suggesting some undue treatment. In response, the nature

1 of these facilities, the low annual usage and high cost of individual metering justifies
2 them being on this rate.

3 I can not perform this same analysis for River's Edge as it just opened on June 1,
4 2004. However, it is reasonable to assume that individually metering and billing these
5 units would also cause a net increase in the owner's electric bill, for much the same
6 reasons as at Brentmoor at Oaktree.

7 **Q. In order to address the second comment of the Committee in their**
8 **second recommendation, please discuss the differences or facts that distinguish the**
9 **communities from other multiple-occupancy residential buildings.**

10 A. As has been provided to the Committee in other filings, these
11 communities are different than other multiple-occupancy residential buildings in the
12 following ways:

- 13 ■ For one monthly fee the owners provide the rental unit, congregate
14 meals, utilities, maid and laundry service, 24 hour supervision and
15 emergency call service, recreation and exercise programs, bath care,
16 medication set-up and reminders, transportation and essentially all other
17 miscellaneous services necessary for a safe and supportive senior living
18 environment.
- 19 ■ The units themselves are distinguished from other multiple-occupancy
20 dwellings by the level of services and service personnel, use of common
21 facilities (exercise room and dining area), safety rails, and various
22 alarms.

1 **Q. The final point in the Committee’s second recommendation was that**
2 **the Committee does not believe the economic costs would exceed the long-term**
3 **benefit. Can you respond?**

4 A. Yes. As I explained earlier in my testimony, there are certainly costs to
5 rewire the buildings for individual meters. There are also the costs associated with the
6 change in rates. Further, these factors bear upon the relative cost versus benefit
7 considerations:

- 8 ▪ Because the residents will not see their energy bill, the price signals
9 of individual metering will not be available, and, therefore, individual
10 conservation is not likely.
- 11 ▪ Individual usage is remarkably low, due to the residents’ lifestyle and
12 oversight of temperature control by the service personnel and
13 conservation minded construction efforts by the owners at each
14 facility.

15 Combined, there is no evidence that individual metering will enhance the
16 conservation efforts of the residents and there is a considerable showing of economic
17 costs associated with individual metering.

18 **Q. Does this conclude your Direct Testimony?**

 A. Yes, it does.

QUALIFICATIONS OF PHILIP B. DIFANI JR.

My name is Philip B. Difani, Jr., and I reside in St. Louis County, Missouri. I am a licensed Professional Engineer in the State of Missouri.

My educational background consists of a Bachelor of Science Degree in Mechanical Engineering from Washington University in May 1983 and a Master of Business Administration from Southern Illinois University in March 1993.

I was employed by Union Electric in April 1974. I began my engineering career at Union Electric in the Nuclear Function as a Mechanical Engineer in May, 1983. I was responsible for various modifications to the Callaway Plant including preparing specifications, drawings, and other design related matters.

I transferred to the Rate Engineering Department in February 1991 and I assumed my current position with Ameren Services Company as Consulting Rate Engineer on August 1, 2001. My duties and responsibilities include assignments related to the gas and electric rates of Union Electric, now doing business as AmerenUE, and Central Illinois Public Service Company, doing business as AmerenCIPS. This includes participation in regulatory proceedings, rate analyses, conducting class cost of service and property evaluation studies, the development and interpretation of gas and electric tariffs, including rules and regulations, and other rate or regulatory projects as assigned.

I have previously testified before the Missouri Public Service Commission and the Illinois Commerce Commission.