

Exhibit No.:  
Issues: Residential Subsidization,  
Combined Metering  
Witness: J. Matt Tracy  
Exhibit Type: Direct  
Sponsoring Party: Missouri-American Water Company  
File No.: ER-2011-0028  
Tariff No.: YE-2011-0116  
Date:

**MISSOURI PUBLIC SERVICE COMMISSION**

**FILE NO. ER-2011-0028  
TARIFF NO. YE-2011-0116**

**DIRECT TESTIMONY**

**OF**

**J. MATT TRACY**

**ON BEHALF OF**

**MISSOURI-AMERICAN WATER COMPANY**

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

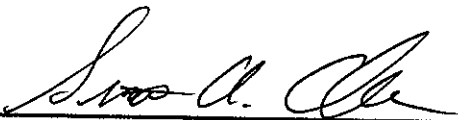
IN THE MATTER OF UNION ELECTRIC COMPANY, d/b/a AMEREN MISSOURI'S TARIFF TO INCREASE ITS ANNUAL REVENUES FOR ELECTRIC SERVICE	) ) ) )	FILE NO. ER-2011-0028 TARIFF NO. YE-2011-0116
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AFFIDAVIT OF J. MATT TRACY

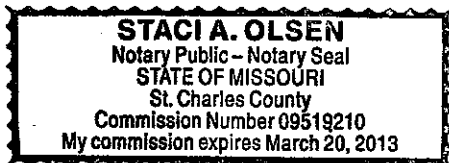
J. Matt Tracy, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of J. Matt Tracy"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony, he would respond as therein set forth; and that the aforesaid testimony is true and correct to the best of his knowledge.

  
\_\_\_\_\_  
J. Matt Tracy

State of Missouri  
County of St. Louis  
SUBSCRIBED and sworn to  
Before me this 10<sup>th</sup> day of February 2011.

  
\_\_\_\_\_  
Notary Public

My commission expires:



**DIRECT TESTIMONY  
J. MATT TRACY  
MISSOURI-AMERICAN WATER COMPANY  
FILE NO. ER-2011-0028  
TARIFF NO. YE-2011-0116**

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BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
DIRECT TESTIMONY OF J. MATT TRACY  
ON BEHALF OF  
MISSOURI AMERICAN WATER COMPANY

1 Q. Please state your name and address.

2 A. My name is J. Matt Tracy and my address is 2101 Red Oak Lane, Liberty, MO, 64068.

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

4 A. I am self-employed as a regulatory consultant, currently serving Missouri American  
5 Water Company (“MAWC” or “company”).

6 Q. What is your experience in the regulatory field?

7 A. I worked in the regulatory area for Aquila, Inc. and its predecessors for over twenty-three  
8 years. I was responsible for the collection and analysis of load research, tariff page  
9 filings, cost-of-service studies, rate design, and other analyses. I also served as a  
10 member, and from time-to-time as chairman, of the City of Liberty’s Board of Public  
11 Utilities (“Board”) for twenty years. Service on the Board provided me with experience  
12 overseeing the operations and rate setting studies of a municipal water and sewer utility.

13 Q. Please state your educational background and work experience.

14 A. I have an M.A. in Economics from the University of Missouri - Kansas City and a B.A.  
15 in Psychology and Religion from William Jewell College. From 1985 to 1996, I worked  
16 in load research at Missouri Public Service a division of Aquila, (then UtiliCorp United  
17 Inc.), and at Aquila. Duties during that time included load research sample design and  
18 analysis, cost-of-service preparation, load forecasting, and weather normalization. In  
19 1996, I accepted a position in the analytical section of UtiliCorp’s Regulatory Services.  
20 In 2002, I was again given responsibility for load research. I have provided expert

1 testimony to utility commissions in Missouri, Colorado, Kansas, Minnesota, and West  
2 Virginia. At Aquila's acquisition I was a regulatory director.

3 **Purpose**

4 Q. What is the purpose of your testimony in this case before the Missouri Public Service  
5 Commission ("Commission")?

6 A. I am supporting MAWC's intervention. MAWC recommends that the Commission end,  
7 or at least take larger steps to reduce the subsidization of the residential class. MAWC  
8 also recommends the combination of some of Ameren's metering points of MAWC  
9 facilities to better reflect a single customer that may take up a large, though still  
10 geographically discrete location.

11 **End or Reduce Residential Subsidization**

12 Q. What evidence exists that residential customers are being subsidized?

13 A. The direct testimony of Ameren witness Wilbon Cooper in this case, and in the three  
14 immediately prior cases, includes tables showing Class Cost of Service level rate of  
15 return changes required to attain Ameren's initially requested increases in rates. That  
16 information is reproduced in the following table.

17 **Cost of Service Increase Table**

	ER-2011-0028	ER-2010-0036	ER-2008-0318	ER-2007-0002
18 Cooper's Page #	18	17	17	16
19 Customer Class				
20 Residential	19%	29%	21%	26%
21 SGS	1%	11%	6%	11%
22 LGS & SPS	.5%	6%	4%	8%
23 LPS	8%	17%	14%	28%
24 LTS	14%	14%	5%	7%
25 Lights	36%	-	-	-

26  
27  
28 Q. What is most notable about the information in the table?

1 A. The consistency of the need for an increase in the residential class compared to the other  
2 classes.

3 Q. Has the Commission addressed this issue in prior cases?

4 A. Yes, in part. In each of Ameren's last three cases the Commission has ordered rate  
5 increases that specifically reduced some other classes while comparatively raising  
6 Residential rates, though in the last case the Commission mitigated that increase with  
7 revenues from the LTS class. Nonetheless, the parties to the prior cases have  
8 recommended, or not opposed, and the Commission has ordered additional revenue  
9 responsibility to the Residential class compared to the other classes. These orders have  
10 all been limited steps towards rectifying the problem; however, as shown in the table  
11 above the problem is persistent and significant and requires a more robust response from  
12 the Commission.

13 Q. How does the company recommend the Commission address this issue?

14 A. MAWC recommends that the Commission order an increase in the revenue requirement  
15 for the Residential class to that required for a level rate of return based on the Class Cost  
16 of Service Study selected by the Commission.

17 Q. Has the Commission taken that position in the past three Ameren cases cited in the table  
18 above?

19 A. No. Tracking the final rate changes in those cases backwards through Staff's tariff  
20 recommendations, through the final orders, and generally to stipulations and agreements  
21 the final results all seem to be in the correct direction, but are only steps toward the  
22 results supported by the studies. MAWC recommends the Commission end the subsidy  
23 to the residential class. The Commission may choose not to go all the way to the results

1 of the current selected study, but the company encourages the Commission to cover more  
2 than two-thirds of the distance. The problem is persistent and there seems little chance  
3 of overshooting the goal.

4 Q. Is there a negative impact on customers due to the Residential subsidization?

5 A. Yes. There are numerous economic efficiency arguments that support the need for  
6 minimization of inter-class subsidies. More specifically as a utility regulated by the  
7 Commission, MAWC cannot support having its ratepayers subsidize residential  
8 customers of Ameren through the rates paid to Ameren for MAWC's water treatment  
9 and pumping facilities.

#### 10 Combined Metering

11 Q. What is meant by combined metering?

12 A. Combining metering refers to the practice of summing both the energy and the demand  
13 from more than one meter and then billing the result as if all had been consumed through  
14 a single meter. In order to receive the benefit of load diversity the demands need to be  
15 summed interval by interval rather than adding the maximum demand from each meter  
16 regardless of the time. To the extent MAWC makes use of time-of-use rate options, the  
17 energy also must be tracked by time. Such interval by interval summation generally  
18 requires interval recording meters.

19 Q. For which customer locations is MAWC requesting combined metering?

20 A. The company proposes that three MAWC locations have metering combined: the  
21 Central Plant; the Meramec Plant, and the South Plant. To be clear, the request is not to  
22 combine all three plants into a single combined meter. The request is that multiple  
23 meters at each plant be combined in order to create three discrete customers.

1 Q. Are some of the meters at these plants combined now?

2 A. Yes. Each of these three plants already has some meters combined. MAWC believes  
3 that additional combinations are appropriate for the reasons given below.

4 Q. What are the circumstances regarding the Central Plant?

5 A. For the Central Plant two metering points are two substations which are less than 2000  
6 feet apart. The two were built at separate times due to plant expansion. If the plant was  
7 served by a single substation large enough to serve the entire load, there would be no  
8 need for MAWC to request combined metering for the Central Plant. For that reason the  
9 company believes combined metering is appropriate. In other words, the two metering  
10 points and substations operate simultaneously and combine to set demand and total  
11 consumption for the total process of drawing water from the river, pumping it to the  
12 treatment plant, treating it, and pumping it into the distribution system. They do not  
13 operate in a one or the other fashion. MAWC has no operational need for and receives  
14 no benefit from having two substations, and both are served from the same electric  
15 feeder. Note also that the substations are both within the Central Plant footprint and no  
16 other properties or public thoroughfares are between the two.

17 Q. What are the circumstances regarding the Meramec Plant?

18 A. The Meramec Plant is metered at the substation in the treatment plant and has another  
19 metering point at its water intake facility at the Meramec River. The distance between  
20 the two is about half a mile, and all of the property between them is owned by MAWC  
21 with no intervening properties or public thoroughfares. The water intake facility is  
22 served from an electric line serving other customers and then continuing south across the  
23 river to yet more customers rather than from an electric line directly from the substation



1 serving the treatment plant. The property is large and the service to the water intake  
2 facility was better served from another electric line, yet the water intake facility is a  
3 fundamental portion of the treatment plant, is physically connected to it, must operate  
4 simultaneously with it, and as a unit. MAWC has no operational need for and receives  
5 no benefit from the separate metering. The company believes combined metering better  
6 reflects the operation of the single customer location.

7 Q. What are the circumstances regarding the South Plant?

8 A. The South Plant is metered at the treatment plant and has another metering point at its  
9 water intake facility at the Meramec River. The South Plant differs from the  
10 Meramec Plant in that the distance is just over a mile between the treatment plant and  
11 the water intake facility and that there are intervening properties and thoroughfares.  
12 Nonetheless, the treatment plant and the water intake facility are physically connected  
13 and must operate simultaneously, and as a unit. MAWC believes the fundamental  
14 need of the two points to each other means that combined metering better reflects the  
15 operation of the single function.

16 Q. Does this conclude your testimony?

17 A. Yes it does.