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**

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 10th **day of** February **2011.**

Notary Public

My commission expires:

STACI A. OLSEN
Notary Public – Notary Seal
STATE OF MISSOURI
St. Charles County
Commission Number 09519210
My commission expires March 20, 2013

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

Q. Please state your name and address.

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

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

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

Q. What is your experience in the regulatory field?

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

Q. Please state your educational background and work experience.

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

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

Purpose

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

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

End or Reduce Residential Subsidization

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

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

Cost of Service Increase Table

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

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

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

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

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

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

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

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

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

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

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

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

Combined Metering

Q. What is meant by combined metering?

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

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

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

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

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

Q. What are the circumstances regarding the Central Plant?

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

Q. What are the circumstances regarding the Meramec Plant?

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

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

Q. What are the circumstances regarding the South Plant?

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

Q. Does this conclude your testimony?

A. Yes it does.