

Exhibit No.:

Issues: Cost of Service  
Rate Design

Witness: James C. Watkins

Sponsoring Party: MO PSC Staff

Type of Exhibit: Direct Testimony

Case No.: ER-2004-0570

Date Testimony Prepared: September 27, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**DIRECT TESTIMONY**

**OF**

**JAMES C. WATKINS**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2004-0570**

**Jefferson City, Missouri  
September 2004**

**FILED**

DEC 28 2004

Missouri Public  
Service Commission

Exhibit No. 74  
Case No(s) ER-2004-0570  
Date 2-06-07 Rptr 45

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

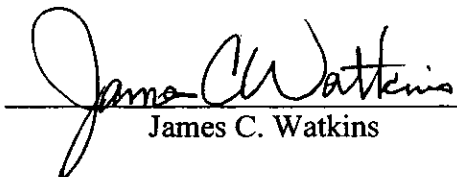
In The Matter Of The Tariff Filing Of The )  
Empire District Electric Company To )  
Implement A General Rate Increase For )  
Retail Electric Service Provided To )  
Customers In Its Missouri Service Area )

Case No. ER-2004-0570

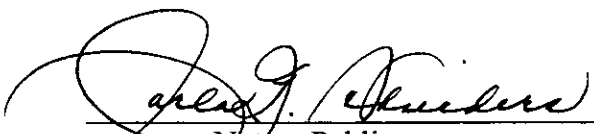
**AFFIDAVIT OF JAMES C. WATKINS**

STATE OF MISSOURI     )  
                                      ) ss  
COUNTY OF COLE     )

James C. Watkins, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 4 pages of Direct Testimony to be presented in the above case, that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

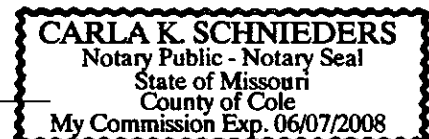
  
James C. Watkins

Subscribed and sworn to before me this 24<sup>th</sup> day of September, 2004.

  
Notary Public

My commission expires

June 7, 2008



**TABLE OF CONTENTS**

1  
2  
3  
4  
5

Class Cost of Service ..... 2

Rate Design..... 3

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

**DIRECT TESTIMONY**  
**OF**  
**JAMES C. WATKINS**  
**THE EMPIRE DISTRICT ELECTRIC COMPANY**  
**CASE NO. ER-2004-0570**

Q. Please state your name and business address.

A. My name is James C. Watkins and my business address is Missouri Public Service Commission, 200 Madison Street, P. O. Box 360, Jefferson City, Missouri 65102.

Q. What is your present position with the Missouri Public Service Commission (Commission)?

A. My title is Manager, Economic Analysis, Energy Department, Operations Division.

Q. Please review your educational background and work experience.

A. I have a Bachelor of Arts Degree in Economics from William Jewell College, a year of graduate study at the University of California at Los Angeles in the Masters Degree Program, and have completed all requirements except my dissertation for a Ph.D. in Economics from the University of Missouri-Columbia. My previous work experience has been as an Instructor of Economics at Columbia College, the University of Missouri-Rolla, and William Jewell College. I have been on the Staff of the Missouri Public Service Commission (Staff) since August 1, 1982. A list of the major cases in which I have filed testimony before the Commission is shown on Schedule 1.

Q. Are you one of the Case Coordinators for this case?

Direct Testimony of  
James C. Watkins

1           A.     Yes. I am primarily responsible for coordination within the Operations  
2 Division and for the Class Cost of Service and Rate Design filings.

3           Q.     What is the purpose of your Direct Testimony in this case?

4           A.     The purpose of my Direct Testimony is to recommend appropriate shifts  
5 in customer class revenue responsibility based on the results of the Staff's class cost-of-  
6 service study.

7 **Class Cost of Service**  
8

9           Q.     Did the Staff perform a customer class cost-of-service study in this case?

10          A.     Yes. The study was prepared by Staff witness Hong Hu and is presented  
11 in her testimony.

12          Q.     How would you evaluate the results of that study?

13          A.     I would evaluate the results in terms of the class revenue shifts that would  
14 be required to equate revenue to cost of service for each class after each class's revenue is  
15 increased (or decreased) by an equal percentage to recover the overall revenue  
16 requirement (total cost of service); i.e., by expressing the results on a "revenue-neutral"  
17 basis.

18          Q.     Please describe the results on that basis.

19          A.     The adjusted current rates for the Residential Class would recover within  
20 five percent (5%) of the class's cost of service; as would the adjusted current rates for the  
21 non-residential classes, in the aggregate. Residential rates would recover somewhat less  
22 than the cost of service. Non-residential rates recover somewhat more than the cost of  
23 service.

Direct Testimony of  
James C. Watkins

1           Within the non-residential classes, adjusted current rates would recover about six  
2 percent (6%) more than the cost of service for the Small General Service and Large  
3 General Service classes; however, the adjusted rates of the Large Power class would  
4 recover about one percent (1%) less than the cost of service, and the adjusted rates of the  
5 Special Contract class would recover about ten percent (10%) less than the cost of  
6 service.

7 **Rate Design**  
8

9           Q.     What are your rate design recommendations in this case?

10          A.     At this time, I am reluctant to make any recommendation for  
11 disproportionate changes to the permanent rates of any of the classes. It is my opinion  
12 that the revenue shifts indicated by the class cost-of-service study, given the quality of  
13 the input data, may not rise to such a level of significance that disproportionate  
14 adjustments to the rates are required. Furthermore, such adjustments, in combination  
15 with an Interim Energy Charge and any rate design changes, may significantly and  
16 adversely impact particular segments within each class.

17          Aside from the Special Contract class, whose revenues are more than ten percent  
18 (10%) below the cost of providing service to them, the two classes that would most need  
19 adjusting are the Large General Service and Large Power Service classes.  
20 Disproportionately changing these rates would cause some Large Power customers to  
21 switch to the Large General Service rate. The effects of this would be a reduction in the  
22 Company's revenues that cannot be quantified by the Staff.

Direct Testimony of  
James C. Watkins

1           Q.     Will you re-evaluate your recommendation after the Staff has completed  
2 its seasonal class cost-of-service study and incorporated the effects of the Interim Energy  
3 Charge?

4           A.     Yes. The Staff will file its overall rate design recommendation on  
5 October 4, 2004.

6           Q.     Does this conclude your testimony?

7           A.     Yes, it does.

## CASE LIST

1. The Empire District Electric Company	Case No. ER-83-42
2. Kansas City Power & Light Company	Case No. ER-83-49
3. Union Electric Company	Case No. ER-83-163
4. Arkansas Power & Light Company	Case No. ER-83-206
5. The Empire District Electric Company	Case No. ER-83-364
6. Kansas City Power & Light Company	Case No. EO-84-4
7. Union Electric Company	Case No. EO-85-17
8. Arkansas Power & Light Company	Case No. ER-85-20
9. Arkansas Power & Light Company	Case No. EO-85-146
10. Union Electric Company	Case No. ER-85-160
11. Kansas City Power & Light Company	Case Nos. ER-85-128 & EO-85-185
12. Arkansas Power & Light Company	Case Nos. ER-85-265 & ER-86-4
13. Union Electric Company	Case Nos. EC-87-114 & EC-87-115
14. St. Joseph Light & Power Company	Case No. HR-88-116
15. Union Electric Company	Case No. EO-87-175
16. Missouri Public Service	Case No. ER-90-101
17. The Empire District Electric Company	Case No. ER-90-138
18. Kansas City Power & Light Company	Case No. EM-91-16
19. St. Joseph Light & Power Company	Case No. EO-88-158
20. The Empire District Electric Company	Case No. EO-91-74
21. Missouri Public Service	Case No. EO-91-245
22. Missouri Public Service	Case No. EO-93-37
23. St. Joseph Light & Power Company	Case No. ER-93-41
24. St. Joseph Light & Power Company	Case No. EO-93-351
25. St. Joseph Light & Power Company	Case No. ER-94-163
26. The Empire District Electric Company	Case No. ER-94-117
27. Citizens' Electric Corporation	Case No. ER-97-286
28. The Empire District Electric Company	Case No. ER-97-81
29. The Empire District Electric Company	Case No. ER-97-491
30. Missouri Public Service	Case Nos. ER-97-394 & ET-98-103
31. St. Joseph Light & Power Company	Case Nos. EC-98-573 & ER-99-247
32. Citizens' Electric Corporation	Case No. ET-99-113
33. Union Electric Company	Case No. EO-96-15
34. Union Electric Company	Case No. EO-2000-580
35. The Empire District Electric Company	Case No. ER-2001-299
36. Missouri Public Service	Case No. ER-2001-672 & EC-2002-265
37. Union Electric Company	Case No. EC-2002-1
38. Citizens' Electric Corporation	Case No. ER-2002-217
39. The Empire District Electric Company	Case No. ER-2001-1074 (ER-2001-425)
40. The Empire District Electric Company	Case No. ER-2002-424
41. Aquila, Inc. (MPS & L&P)	Case Nos. ER-2004-0034 & HR-2004-0024