Exhibit No.:	
Issues:	Cost Allocation, Rate Design
Witness:	Richard Baudino
Sponsoring Party:	The Commercial Group
Type of Exhibit:	Rebuttal Testimony
Case No.:	ER-2008-0318
Date Testimony Prepared:	October 14, 2008

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF UNION ELECTRIC	**:**	
COMPANY d/b/a AMERENUE FOR AUTHORITY	**:**	
TO FILE TARIFFS INCREASING RATES	**:**	
FOR ELECTRIC SERVICE PROVIDED TO	**:**	**Docket No. ER-2008-0318**
CUSTOMERS IN THE COMPANY'S	**:**	
MISSOURI SERVICE AREA	**:**	

REBUTTAL TESTIMONY

OF

RICHARD A. BAUDINO

ON BEHALF OF

THE COMMERCIAL GROUP

J. KENNEDY AND ASSOCIATES, INC.

OCTOBER 2008

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF UNION ELECTRIC COMPANY d/b/a AMERENUE FOR AUTHORITY TO FILE TARIFFS INCREASING RATES FOR ELECTRIC SERVICE PROVIDED TO CUSTOMERS IN THE COMPANY'S MISSOURI SERVICE AREA	**:**	**Docket No. ER-2008-0318**

REBUTTAL TESTIMONY OF RICHARD A. BAUDINO

Q. Please state your name and business address.

A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates, Inc. ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia 30075.

Q. Did you submit Direct Testimony in this proceeding?

A. Yes. I submitted Direct Testimony on behalf of The Commercial Group.

Q. **What is the purpose of your testimony?**

A. The purpose of my Rebuttal Testimony is to address the Direct Testimony of Mr. James Watkins, witness for the Missouri Public Service Commission ("MPSC") Staff and the Direct Testimonies of Mr. Ryan Kind and Ms. Barbara Meisenheimer, witnesses for the Office of Public Counsel ("OPC"). My testimony will cover the areas of class cost of service allocations and revenue allocations to customer classes.

Response to MPSC Staff

Q. Please summarize the cost of service testimony submitted by Mr. Watkins.

A. Mr. Watkins presented the results of the MPSC Staff's class cost of service ("CCOS") study, the details of which are contained in the document entitled "Staff Report: Class Cost of Service & Rate Design" dated September 11, 2008.

With respect to cost allocation, the Staff's study differed from the Company's approach to the allocation of production demand costs. The Staff's study used an average and peak ("A&P") approach. The average portion of the Staff's A&P allocation factor was based on average demand and was weighted by the system load factor, which was the same approach used by the Company. However, the excess demand portion was based on each class' contribution to the system's twelve coincident peaks. This resulted in a larger allocation of production demand costs to the Large General Service/Small Primary Service class and a smaller allocation to the Residential class.

The Staff's CCOS study results are summarized on page 4 of the Staff's Report. At the Staff's recommended revenue requirement increase, Table 1 presents the increases required to bring each customer class to paying its full cost of service.

TABLE 1

FULL COST OF SERVICE INCREASES
MPSC STAFF CLASS COST OF SERVICE STUDY

Residentia	5.62%
Small General Service	-0.60%
Large General Service/Small Primary	-2.63%
Large Primary Service	5.36%
Large Transmission Service	7.34%
System Average Increase	2.46%

According to the results of the Staff's CCOS study, Large General Service/Small Primary Service customers should receive a rate *decrease* of 2.63%, compared to the Staff's recommended overall increase of 2.46%.

Based on the results of the Staff's CCOS study, Mr. Watkins recommended "no revenue shifts among classes, so that the current revenue relationships among the classes are maintained." Mr. Watkins further proposed an equal percentage increase to each rate component of each rate schedule equal to the overall system average increase. Thus, my understanding of Staff's proposal is that an across-the-board ("ATB") increase to all rate classes should be implemented.

Q. Do the results of Staff's CCOS study support an across-the-board increase to Ameren's rate classes?

A. No. The results of Staff's study show that the Large General Service/Small Primary Service class is currently paying rates that recover significantly more than the cost to serve that class. If the Commission were to adopt Staff's CCOS study then, at the very least, this class should receive no increase at all. Basing rates on the cost to serve, however, LGS/SPS should receive a rate decrease rather than an increase.

An across-the-board increase to LGS/SPS is not justified by Staff's own CCOS study and would simply perpetuate the significant subsidy that this class is currently paying to other classes. Thus, I recommend that the Commission reject an ATB increase.

Q. Do you agree with Staff's A&P method of allocating production related costs?

A. No. Staff's approach allocates far too much cost responsibility on usage and demands throughout the year. I recommend that the Commission reject Staff's A&P production allocation factor for the following reasons.

Peak demand is the primary driver of a utility's decision to invest in generating plant to serve its customers. The electric utility must have resources in place to serve its peak loads and to meet its service responsibility to its customers. Staff's A&P production allocator fails to reflect this important relationship between peak demand and the investment in production/generation costs by the utility company. This is because 53% of the A&P factor is based on energy usage and 47% is based on class contribution to the twelve monthly coincident peaks ("12 CPs"). The peak portion of Staff's A&P allocator is based on 12CP, which utilizes each class' contribution to each monthly peak throughout the year. Since the average portion of Staff's allocator is already based on average loads throughout the year, Staff's A&P allocator fails to give adequate weight to the system peak. This approach also penalizes higher load factor customers who use the Company's facilities more uniformly throughout the year and have higher load factors. Finally, Staff's use of Ameren's system load factor is essentially arbitrary in terms of weighting the average demand and 12 CP demand portions of the A&P factor.

Q. Do you support the use of Ameren's average and excess ("A&E") production allocator?

A. Yes. The Company's A&E method better reflects class cost responsibility than either the Staff's or the OPC's A&P methods. I will address the OPC's CCOS study in the next section of my testimony.

<u>Response to the Office of Public Counsel</u>

Q. Please summarize the cost of service testimony provided by the Office of Public Counsel.

A. Mr. Ryan Kind presented the results of the OPC's CCOS study. Ms. Barbara Meisenheimer presented the OPC's recommended production cost allocation factors.

Ms. Meisenheimer presented two alternative production cost allocators, one based on an A&P method and another based on Time Of Use ("TOU") demands. Similar to the Staff's A&P method, average demand was weighted by Ameren's load factor and class contributions to the Company's four CPs were weighted by one minus the system load factor. Her TOU demand allocator assigns production costs to each hour of the year in which there is specific production, and then purports to allocate costs based on each class' hourly demands. According to Ms. Meisenheimer, this allocation factor reflects both peak use and average use throughout the year.

Mr. Kind presented the results of his CCOS study on page 6 of his Direct Testimony. Tables 1 and 2 show the results of using the two production allocators developed by Ms. Meisenheimer. Using the perspective of revenue neutral class shifts, OPC's CCOS studies show that the LGS/SPS classes would receive rate reductions of 2.13% under the TOU Demand study and 2.55% under the A&P study. However, Mr. Kind recommended an ATB revenue increase for all classes.

Q. Do the results from OPC's CCOS studies justify an ATB percentage increase for all classes?

A. No. In fact, both of OPC's studies show that the LGS/SPS classes are paying more than their fair share of costs and should receive an increase less than the system average increase.

Q. Do you agree with the production cost allocators proposed by the OPC?

A. No. OPC's A&P method suffers from a similar infirmity as Staff's method in that it places too much reliance on average demands and not enough on the system peak demand. Average demands are also included in the 4CP portion of OPC's A&P factor, unlike Ameren's A&E allocator that properly subtracts out average demands, and then weights the excess demand portion by 1 minus the system load factor. Also, like Staff's A&P method, OPC has arbitrarily weighted energy and peak demands using the system load factor percentages. There is no basis for this weighting. For these reasons, I recommend that the Commission reject OPC's A&P production allocator.

OPC's TOU Demand allocator is yet another version of A&P, just much more complicated. Essentially, this approach assigns capacity costs to every hour of the year, while ignoring the vital importance of peak demands to system planning and generation expansion. And, like the A&P method, the TOU Demand method penalizes higher load factor customers that use the Company's facilities more efficiently throughout the year.

The TOU Demand method very nearly treats demand-related production costs as if they were energy costs. The TOU Demand allocation factor for each class is quite close to each class' energy allocation factor. For example, in the OPC's CCOS study the energy allocation factor for the LGS/SPS class is 32.65%, while the TOU Demand allocation factor is 31.74%, a difference of only 0.95%.

It is both inappropriate and unfair for a production demand allocator to allocate fixed production costs on a basis that approximates energy usage. I recommend that the Commission reject the OPC's TOU Demand allocation factor.

Q. Please summarize your recommendations to the Commission.

A. For the reasons stated above, I recommend that the Commission reject the recommendations of the Staff and OPC for ATB rate increases. Instead, I recommend that the Commission base its cost and revenue allocations in this proceeding on Ameren's CCOS study. I also recommend that the Commission reject an ATB increase in this proceeding regardless of the CCOS method it finally approves.

Q. Does this complete your testimony?

A. Yes.