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Witness: James C. Watkins
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Case No.: ER-2007-0002
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

REBUTTAL TESTIMONY

OF

JAMES C. WATKINS

UNION ELECTRIC COMPANY d/b/a

AMERENUE

CASE NO. ER-2007-0002

**Jefferson City, Missouri
February 2007**

My commission expires 9-21-10

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AMERENUE

CASE NO. ER-2007-0002

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. Who is your employer and what is your present position?

A. I am employed by the Missouri Public Service Commission (Commission) and my title is Manager, Economic Analysis, Energy Department, Operations Division.

Q. What is 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.

Executive Summary

Q. What is the purpose of your rebuttal testimony in this case?

A. I address some of the rate design proposals in the direct testimony of AmerenUE witnesses Wilbon L. Cooper and Robert J. Mill, and the Essential Service Rate the Missouri Association For Social Welfare proposes in the direct testimony of its witness Robert (Bob) Quinn.

Union Electric Proposals

Riders EDRR, ERR, RDC & DRP

Q. Have you reviewed the Economic Development & Retention Rider and the Economic Re-Development Rider AmerenUE's proposes?

A. Yes. The Economic Development & Retention Rider (EDRR) and the Economic Re-Development Rider both provide incentives similar to AmerenUE's expired Economic Development Rider (EDR). The Staff supports AmerenUE's economic development efforts and recommends the Commission approve both of these riders.

Q. Have you reviewed AmerenUE's proposed changes to its Reserve Distribution Capacity Rider (RDC)?

A. Yes. AmerenUE proposed to extend the availability date to 2011 and reflect a format change to Rider B (Discounts Applicable For Service To Substations Owned By Customer In Lieu Of Company Ownership). The Staff recommends the Commission approve these changes.

Q. Have you reviewed the Industrial Demand Response Pilot program AmerenUE proposes?

1 A. Yes. AmerenUE proposed an Industrial Demand Response Pilot (DRP)
2 program to evaluate the viability of demand response opportunities within the industrial
3 community. This “pilot” looks a lot like AmerenUE’s old 10(M) Rate that was terminated in
4 Case No. ER-96-15 and again rejected in Case No. EO-2000-580; however, the Staff does not
5 oppose AmerenUE undertaking this limited two-year pilot that requires an evaluation by
6 AmerenUE by November 30, 2009.

7 **10% Discount For “High” Load Factor Large Primary Customers**

8 Q. Have you reviewed AmerenUE’s proposal to discount the energy component
9 of the Large Primary Rate by 10% for customers with load factors of at least 80%?

10 A. Yes. The Staff is strongly opposed to this proposal. The LPS Rate Schedule
11 itself is poorly designed, if it doesn’t appropriately price service to customers under it. When
12 the LPS Rate Schedule was designed, the Staff, and other parties, assumed all Large Primary
13 Customers had “high” load factors. Thus, the schedule was designed without the base-and-
14 seasonal hours-of-use structure applicable to smaller customers.

15 It makes no sense to change the current rate schedule so that a customer which has an
16 80% load factor pays 10% less than a nearly identical customer with a 79.99% load factor.
17 That is a bad rate design. There should be no big discontinuities in the rate design that allow
18 very small changes in usage to cause very large changes in a customer’s bill. It would make
19 more sense to redesign the rate schedule to include hours-of-use energy blocks.

20 **Prohibition on Large Primary Customer “Rate Switching”**

21 Q. Have you reviewed AmerenUE’s proposal to require all customers with
22 demands of at least 5,000 kW to pay for their service on the Large Primary Rate Schedule?

1 A. Yes. The Staff is strongly opposed to implementing this proposal for much the
2 same reason that it opposes a 10% discount for customers with load factors of at least 80%.
3 Under this proposal, a customer with a demand of 4,999 kW could pay almost 20% less than a
4 customer with a demand of 5,000 kW with the same load factor and usage characteristics.
5 There should be no big discontinuities in the rate design that allow very small changes in
6 usage to cause very large changes in a customer's bill.

7 **Elimination of the ACF for Large Transmission Service Customers**

8 Q. Have you reviewed AmerenUE's proposal to eliminate the Annual
9 Contribution Factor (ACF) from the Large Transmission Service Tariff?

10 A. Yes. The ACF should not be eliminated at this time; however, the factor
11 should remain at its current level and not be increased in response to an increase in Large
12 Primary Service rates. Eliminating the ACF would reduce the effective rate on the Large
13 Transmission Service rate schedule from \$0.0325 per kWh to only \$0.3024 per kWh. At
14 \$0.0325 per kWh, the Staff's class cost-of-service study indicates revenues collected on the
15 Large Transmission Service rate schedule that are already more than 10% below AmerenUE's
16 cost of service. Further reducing the rate by another 7% would move class revenues even
17 farther below AmerenUE's cost of service for providing electricity to the members of this
18 class.

19 **Essential Service Rate**

20 Q. Have you reviewed the MASW proposal to institute an Essential Service Rate
21 for Residential customers?

22 A. Yes. While the Staff is not opposed to the goals that the Essential Service Rate
23 attempts to advance, the Staff recommends that it not be implemented.

1 The approach taken by utilities in Missouri has been to provide some direct assistance
2 to low-income customers who are having trouble paying their bills. These programs include
3 AmerenUE's Dollar More program, which relies on customer donations for its funding, and
4 The Empire District Electric Company's (EDE) Experimental Low-Income Program, which is
5 funded by EDE and its ratepayers.

6 However, the bulk of the efforts to help low-income customers have been directed
7 toward programs that actually reduce the cost of providing service to these customers, thus
8 reducing their bills. These programs include weatherizing homes, offering rebates for
9 installing energy efficient appliances, and others.

10 The Staff's objection to offering an initial Essential Service Rate block for Residential
11 customers is that it distorts the price of electricity for all customers, while providing only
12 limited assistance to those who need it the most. The most needy customers are those with
13 usage well in excess of the average for low-income customers because they live in poorly
14 insulated housing with inefficient appliances and heating/cooling systems.

15 Q. Does this conclude your rebuttal testimony?

16 A. Yes.

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. ER-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
42. The Empire District Electric Company	Case No. ER-2004-0570
43. Union Electric Company	Case No. EA-2005-0180
44. Aquila, Inc. (MPS & L&P)	Case No. EO-2002-384
45. Aquila, Inc. (MPS & L&P)	Case Nos. ER-2005-0436 & HR-2005-0450
46. Aquila, Inc. (MPS & L&P)	Case No. ER-2007-0004