

Exhibit No.:  
Issues: Rate Design  
Witness: James A. Busch  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Direct Testimony  
Case No.: ER-2007-0002  
Date Testimony Prepared: December 29, 2006

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

**DIRECT TESTIMONY**

**OF**

**JAMES A. BUSCH**

**UNION ELECTRIC COMPANY d/b/a**

**AMERENUE**

**CASE NO. ER-2007-0002**

**Jefferson City, Missouri  
December 2006**

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

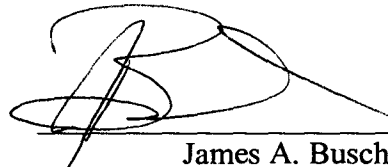
In the Matter of Union Electric Company   )  
d/b/a AmerenUE for Authority to File   )  
Tariffs Increasing Rates for Electric   )  
Service Provided to Customers in the   )  
Company's Missouri Service Area.        )

Case No. ER-2007-0002

**AFFIDAVIT OF JAMES A. BUSCH**

STATE OF MISSOURI   )  
  ) ss  
COUNTY OF COLE    )

James A. Busch, 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 6 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 A. Busch

Subscribed and sworn to before me this 27<sup>th</sup> day of December, 2006.



SUSAN L. SUNDERMEYER  
My Commission Expires  
September 21, 2010  
Callaway County  
Commission #06942086

  
Notary Public

My commission expires 9-21-10

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**OF**

**JAMES A. BUSCH**

**UNION ELECTRIC COMPANY d/b/a**

**AMERENUE**

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A. My name is James A. Busch and my business address is P. O. Box 360, Jefferson City, Missouri 65102.

A. I am a Regulatory Economist III in the Economic Analysis Section of the Energy Department, Utility Operations Division of the Missouri Public Service Commission (Staff).

Q. Are you the same James A. Busch that previously filed prepared testimony in this proceeding, Case No. ER-2007-0002?

Q. What is the purpose of your direct testimony in this proceeding?

A. The purpose of my direct testimony is to present Staff's rate design recommendation in this proceeding.

Q. Would you please summarize your testimony?

A. My testimony presents Staff's rate design recommendation that there should be overall company revenue neutral shifts in class revenue responsibility to move certain

1 classes closer to the cost of serving that class. The Small General Service class should  
2 receive a revenue neutral reduction of 2.53% and the Large Power Service class should  
3 receive a revenue neutral increase of 3.81%. In total dollars, this represents a shift of  
4 \$6,050,000. After these revenue neutral shifts are made, each class should receive the system  
5 average percentage increase or decrease in class revenue responsibility. For each cost-of-  
6 service class, each rate component of each rate schedule serving that class should be adjusted  
7 by the same percentage to achieve the level required to generate revenues equal to that class's  
8 assigned revenue responsibility.

9 **Rate Design**

10 Q. What other Staff witnesses are filing testimony in this phase of Case No. ER-  
11 2007-0002?

12 A. Staff witness David C. Roos is also filing testimony in the rate design phase of  
13 this case. In his testimony, Mr. Roos describes Staff's Class Cost of Service (CCOS) study  
14 and presents the results of that study. I relied on the CCOS study results presented in Mr.  
15 Roos testimony as "Case 3" as the basis for Staff's rate design recommendations. Case 3 is  
16 based on Staff's allocation methods, Staff's accounting data, and Staff's revenue requirement  
17 recommendation at the midpoint rate of return. Staff's revenue requirement recommendation  
18 is found in Staff's Accounting Schedules filed on December 15, 2006.

19 Q. What classes did Staff use in its CCOS study?

20 A. Staff used the following classes: Residential (RES), Small General Service  
21 (SGS), Large General Service (LGS), Large Primary Service (LPS), and Large Transmission  
22 Service (LTS).

23 Q. What are Staff's CCOS study results?

1           A.     Staff's CCOS study indicates that the following revenue adjustments would  
2     need to occur to exactly align each class's revenues with its cost of service: Res, -9.50%;  
3     SGS, -17.46%; LGS, - 14.05%; LPS, +5.73%; and LTS, +0.98%.

4           Q.     What shifts in revenue responsibilities between classes does Staff's CCOS  
5     study indicate should be made while keeping AmerenUE's overall revenue unchanged (i.e. on  
6     a revenue neutral basis)?

7           A.     The revenue neutral shifts can be determined by subtracting the overall 9.94%  
8     revenue reduction from each class's required percentage change in revenues. On a revenue  
9     neutral basis, the following shifts should occur for each class: Res, 0.44%; SGS, -7.52%;  
10    LGS, -4.11%; LPS, 15.67%; and LTS, 10.92%.

11          Q.     What do the signs on the above percentages indicate?

12          A.     If the study shows that a negative percentage shift should occur for a class, it  
13     indicates that the class is collecting revenue in excess of the cost to serve the class and its  
14     rates should be reduced. If the study shows that a positive percentage shift should occur, it  
15     indicates that the class is not generating enough revenue to cover its costs and its rates should  
16     be increased.

17          Q.     Is Staff recommending that each class have its revenue responsibility shifted  
18     to exactly equal its cost of service?

19          A.     No. Because of the relative rate impacts, the Staff is not recommending a  
20     movement all the way to each class' cost of service.

21          Q.     What is Staff's rate design recommendation in this proceeding?

22          A.     Looking at the revenue neutral shifts, three classes stick out. One is SGS. The  
23     other two are LPS and LTS. Currently, SGS revenues are significantly above its cost of

1 service while LPS and LTS revenues are significantly below their cost of service. RES is  
2 within ½% of its cost of service and LGS is within 5% of its cost of service. Because a  
3 CCOS study is not a precise measurement of actual class cost of service, it should be used  
4 only as a guide in determining what shifts should be made to revenue responsibility amongst  
5 the classes, if any. When a CCOS study shows no class's revenues to be more than 5% above  
6 its cost of service, no shifts should be made on a revenue neutral basis. Therefore, Staff  
7 recommends that no revenue neutral shifts be made to the residential and LGS classes.  
8 However, since the study shows a negative shift of greater than five percent for the SGS  
9 class, Staff recommends that the SGS class's revenue responsibility should be reduced on a  
10 revenue neutral basis. Therefore, Staff recommends reducing SGS's revenue responsibility  
11 by 2.53% on a revenue neutral basis. This means that, on a revenue neutral basis, some other  
12 class (or classes) needs to have its revenue responsibility increased. According to Staff's  
13 CCOS study, the LPS class has the largest revenue shortfall, thus Staff recommends that the  
14 LPS class have its revenue responsibility increased by 3.81% to shift responsibility of  
15 \$6,050,000 from the SGS class to the LPS class.

16 Even though the LTS class revenues are significantly below its cost of service, Staff  
17 recommends no change to the LTS class on a revenue neutral basis because the above shift  
18 still leaves the LPS class revenues the farthest below its cost of service. As noted in Mr.  
19 Roos' testimony, Staff assumes that the current revenues collected from lighting  
20 appropriately cover the cost of lighting.

#### **Recommendation Summary**

21  
22 Q. What is Staff's rationale for the revenue neutral shift it recommends?

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1           A.     As noted above, Staff believes that CCOS studies should serve as a guide to  
2     setting revenue requirement and thus are not precise. Under Staff's proposed shifts, the SGS  
3     class would be moved to within 5% of its cost of service. In order to reduce SGS class  
4     revenues, the revenues of another class or classes must have additional revenue  
5     responsibility. According to Staff's CCOS study, the LPS class is the class that is the furthest  
6     from providing its cost of service. Thus to reduce the SGS class revenues to get them within  
7     5% of cost of service, a shift of \$6,050,000 must occur, which is a 3.81% increase to the LPS  
8     class revenues. This shift to the LPS class still leaves it further away from its cost of service  
9     than the LTS class.

10          Q.     What is Staff's recommendation to implement any rate increase or decrease  
11     the Commission may order in this case?

12          A.     Staff's accounting schedules indicate that Union Electric Company d/b/a  
13     AmerenUE (AmerenUE) should have an overall reduction of 9.94% in revenues. Thus, once  
14     the revenue neutral shifts have been made, all classes would get the system average reduction  
15     of 9.94%.

16          Q.     What would be the total change to each class's revenue responsibility after the  
17     revenue-neutral change and the system average reduction occurs?

18          A.     The combined changes would lead to the following results. The RES, LGS,  
19     and LTS classes would all get the system average decrease of 9.94%. The SGS class would  
20     ultimately get a reduction of 12.22% and the LPS class would ultimately get a reduction of  
21     6.51%.

22          Q.     Assuming the Commission changes class's revenue responsibilities, how does  
23     Staff recommend the Commission implement changing rates for each class?



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James A. Busch

1           A.     Staff recommends that all rate elements be adjusted by the same percentage as  
2 each class' percentage change in total revenue.

3           Q.     Does this conclude your direct testimony?

4           A.     Yes.