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Issue(s):

Economic Considerations

Witness/Type of Exhibit: Meisenheimer/Direct

Sponsoring Party:

Public Counsel

Case No.:

ER-2012-0166

**DIRECT TESTIMONY
OF
BARBARA A. MEISENHEIMER**

Submitted on Behalf of the Office of the Public Counsel

**UNION ELECTRIC COMPANY D/B/A
AMEREN MISSOURI**

CASE NO. ER-2012-0166

July 6, 2012

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

In the Matter of Union Electric Company)
d/b/a Ameren Missouri's Tariffs to Increase)
Its Revenues for Electric Service)


File No. ER-2012-0166

AFFIDAVIT OF BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara A. Meisenheimer. I am a Chief Utility Economist for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my direct testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Barbara A. Meisenheimer
Chief Utility Economist

Subscribed and sworn to me this 6th day of July 2012.



KENDELLE R. SEIDNER
My Commission Expires
February 4, 2015
Cole County
Commission #11004782



Kendelle R. Seidner
Notary Public

My Commission expires February 4, 2015.

**Direct Testimony
Of
Barbara Meisenheimer**

Ameren

ER-2012-0166

1 **Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

2 A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel,
3 P. O. Box 2230, Jefferson City, Missouri 65102. I am also an adjunct instructor
4 for William Woods University.

5 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.**

6 A. I hold a Bachelor of Science degree in Mathematics from the University of
7 Missouri-Columbia (UMC) and have completed the comprehensive exams for a
8 Ph.D. in Economics from the same institution. My two fields of study are
9 Quantitative Economics and Industrial Organization. My outside field of study is
10 Statistics.

11 I have been with the Office of the Public Counsel since January 1996. I have
12 testified before the Missouri Public Service Commission (Commission) on
13 economic issues and policy issues in the areas of telecommunications, gas, electric,
14 water and sewer. In rate cases my testimony has addressed class cost of service,
15 rate design, miscellaneous tariff issues, low-income and conservation programs and
16 revenue requirement issues related to the development of class revenues, billing
17 units, low-income program costs, incentive programs and fuel cost recovery.

1 Over the past 15 years I have also taught courses for the following
2 institutions: University of Missouri-Columbia, William Woods University, and
3 Lincoln University. I currently teach undergraduate and graduate level economics
4 courses for William Woods University.

5 **Q. HAVE YOU TESTIFIED IN PAST AMEREN RATE CASES?**

6 A. Yes. I testified in Case No. ER-2007-0002, Case No. ER-2008-0318, Case No. ER-2010-
7 0036 and Case No. ER-2011-0028.

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

9 A. My direct testimony addresses economic and public policy issues the Commission
10 should consider in determining the appropriate level of revenue requirement for
11 Union Electric Company d/b/a Ameren Missouri (Ameren or the Company).
12 Despite an economy plagued by slow growth, high unemployment and under-
13 employment and only marginal wage growth, Ameren has sought frequent and
14 substantial rate increases. Those increases have far outpaced the growth of wages.
15 Consumers are finding it increasingly difficult to make ends meet, some to the point
16 of crisis. In this testimony I explain that the Commission can and should treat rate
17 affordability as a key factor in determining the Company's revenue requirement.

18 **Q. WHAT DO YOU BELIEVE SHOULD BE THE COMMISSION'S FOCUS IN RESOLVING THIS**
19 **CASE?**

20 A. In this case, Public Counsel urges the Commission to decide issues in a manner that
21 recognizes the economic challenges faced by households in Ameren's service area

1 and reasonably minimizes the rate impact on consumers. The Commission should
2 also focus on allowing customers greater control over their electric bills.

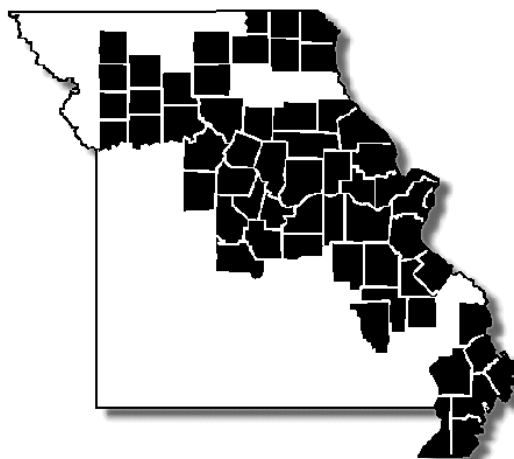
3 **Q. SHOULD THE COMMISSION CONSIDER THE ECONOMIC CLIMATE AND FACTS SUCH**
4 **AS UNEMPLOYMENT RATES AND PREVIOUS RATE INCREASES WHEN DETERMINING**
5 **WHAT RATES ARE JUST AND REASONABLE?**

6 **A.** Yes. It is the Commission's job to set just and reasonable rates. Public Counsel
7 has argued and the Commission has recognized that in addition to cost of service,
8 other relevant factors to consider in setting rates include the value of a service, the
9 affordability of service, rate impacts, and rate continuity.

10 **Q. PLEASE DESCRIBE AMEREN'S SERVICE AREA.**

11 **A.** According to information submitted as part of the Company's minimum filing
12 requirements, Ameren serves the City of St. Louis and communities in 60 Missouri
13 counties as illustrated in Diagram 1. The Company's service area is also diverse in
14 terms of population density and economic activity.

15 Diagram 1.



1 **Q. WHAT ECONOMIC FACTORS HAVE AN IMPACT ON RATE AFFORDABILITY?**

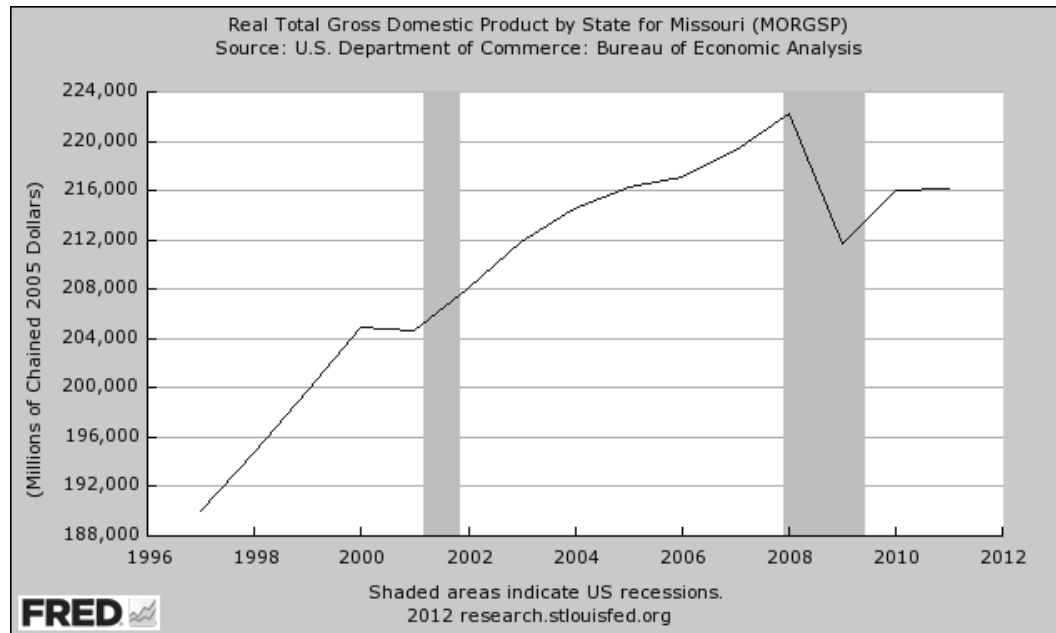
2 A. Output growth, often measured as a change in Real Gross Domestic Product, the
3 levels of unemployment and under-employment and inflation in consumer prices
4 all impact the general affordability of rates.

5 **Q. PLEASE DESCRIBE THE RECENT PERFORMANCE OF OUTPUT GROWTH.**

6 A. Real Gross Domestic Product (RGDP) measures the inflation-adjusted value of all
7 new, final goods and services produced within a geographic area. Diagram 2
8 which is based on data compiled by the U.S. Department of Commerce and
9 reported by the Saint Louis branch of the Federal Reserve, illustrates that
10 Missouri's RGDP remains stagnant below the December 2007 level. As I will
11 discuss later in this testimony, the reduction in output since December 2007
12 shown in Diagram 2 corresponds to a period of significant unemployment
13 throughout Missouri.

Diagram

2.



Also significant is that prior to the recent recession, Missouri had experienced moderate but relatively steady growth as illustrated by the pre-December 2007 trend shown in Diagram 2. Relatively steady economic growth over time promotes confidence leading to new investment, increased employment opportunities and wage growth. It is still unclear if the recession was only a temporary shock that can be overcome or if there will be a more harmful long-term impact on Missouri households.

Q. PLEASE COMMENT ON THE RATE OF UNEMPLOYMENT IN AMEREN'S SERVICE AREA.

A. According to the U.S. Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages, every Ameren service area county experienced an increase in unemployment between 2006 and 2011. For a number of counties the unemployment rate has more than doubled. Attachment1 illustrates the growth in

1 unemployment for each county and the City of St. Louis. Sullivan County, which
2 experienced the smallest increase, saw a 26% increase in unemployment. Camden
3 County experienced the greatest increase in unemployment - more than doubling,
4 increasing by 128%. Statewide, unemployment grew 79% over the period 2006 to
5 2011.

6 **Q. DO THE UNEMPLOYMENT STATISTICS REPORTED BY THE BLS REFLECT THE**
7 **ACTUAL LEVEL OF UNDER-EMPLOYMENT?**

8 A. No. The unemployment statistics reported by the BLS are limited in that the
9 derivation of those statistics treats a person who works any number of hours for pay
10 as employed. For example, a person who works only one hour for pay would be
11 treated as employed and would not be reflected in the unemployment rate. To gauge
12 under-employment requires consideration of additional information. Measures of
13 workers' wages can provide additional information on the level of under-
14 employment because they reflect changes over time in total worker compensation.

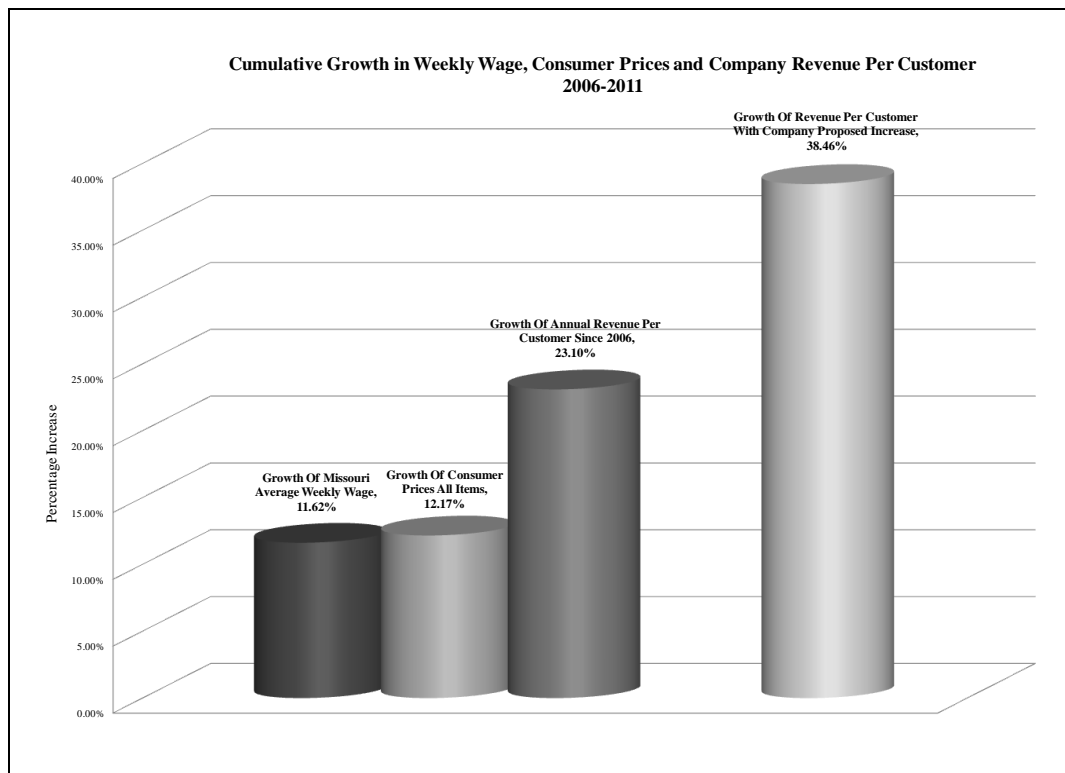
15 **Q. PLEASE COMMENT ON HOW WAGES HAVE CHANGED.**

16 A. Based on data obtained from the US Bureau of Labor Statistics, between 2006 and
17 2011 for counties served by Ameren, the growth in average weekly wages ranged
18 from an increase of about 27.9% in Caldwell County to a reduction of 9.29% in
19 Reynolds County. Over the same period the average weekly wages in the City of St.
20 Louis grew by 11.98%.

21 **Q. HOW DOES THE GROWTH IN WAGES COMPARE TO THE GROWTH IN COMPANY**
22 **REVENUE?**

A. Overall, Missouri workers' weekly wages grew about 11.63% over the period 2006-2011, which is just under half of the 23.1% growth in Ameren's current revenue per customer, and less than one third of the 38.46% growth in revenue Ameren could receive if its \$375.6M proposed increase in this case is granted. Diagram 3, shown below, illustrates these comparisons. The diagram illustrates that Ameren's growth rate of revenue per customer is far outpacing the average growth in workers' wages and overall consumer prices.

Diagram 3.



Q. HOW DO RATE INCREASES THAT OUTPACE WAGE INCREASES IMPACT CONSUMERS?

A. As electric bills claim an even larger share of wages, many consumers find it more difficult to make ends meet. Some customers might have to work extra hours or two

1 jobs. Some customers might have to make a choice between paying utility bills and
2 buying food and medicine.

3 **Q. DO AMEREN'S CUSTOMERS ALSO FACE THE RISK OF UNANTICIPATED RATE**
4 **INCREASES FOR ELECTRIC SERVICE?**

5 A. Yes. In addition to substantial base rate increases, Ameren customers face the risk
6 of upward volatility in their electric bills due to potential rate increases that can
7 occur between rate cases. The Fuel Adjustment Clause (FAC) is a surcharge
8 through which the Company can adjust the collection of fuel and purchased power
9 costs separate from all the other costs of doing business. Ameren sought and
10 received authority for the FAC in response to the Company's perception that it was
11 under-recovering fuel related costs. The result of the FAC mechanism has been to
12 shift the risk of higher fuel costs to consumers resulting in the potential for
13 unanticipated bill increases. To date, in addition to the authorized base rate
14 increases totaling approximately \$604 Million that have occurred since 2006,
15 Ameren has been allowed to collect an additional \$235 Million through the FAC.

16 **Q. PLEASE COMMENT ON OTHER RECENT RATE INCREASES THAT HAVE IMPACTED**
17 **AMEREN'S SERVICE AREA.**

18 A. From 2006 to 2011, investor owned utility customers in portions of Ameren's service
19 area have faced significant increases. In rate cases, Ameren increased companywide
20 electric base rates four times for a total of about \$604M and increased natural gas
21 distribution rates by about \$11.6M. Missouri American Water increased
22 companywide water rates three times for a total of almost \$91M. Laclede Gas
23 increased natural gas distribution rates twice for a total of \$51.9M. Missouri Gas

1 Energy increased natural gas distribution rates twice for a total of about \$43.4M.
2 Other investor owned utilities including the Empire District (gas), Missouri Gas
3 Utility and Aqua Missouri have also increased rates during this timeframe.

4 **Q. HAVE CONSUMERS PREVIOUSLY EXPRESSED CONCERNS ABOUT THEIR ABILITY TO**
5 **AFFORD UTILITY RATE INCREASES AND THE FAIRNESS OF RATES?**

6 A. Yes. Customers testifying in past public hearings and customers submitting
7 comments to the Commission have regularly voiced frustration and concern about
8 the burden of additional rate increases given the state of the economy. I believe that
9 the vast majority of Ameren's customers are willing to pay what they perceive to be
10 fair prices for the utility services they receive. However they don't perceive as fair a
11 situation in which a for-profit public utility is granted rate increases year after year
12 while the economy is struggling, many are unemployed or under-employed and
13 wages are stagnant. From a consumer perspective, Ameren has received significant
14 concessions including regular rate increases, reduced risk as a result of the FAC and
15 more extensive use of surcharges and other rate-making mechanisms that enhance
16 the profit of shareholders. In the current case the Commission should focus on
17 ensuring rate affordability and fairness for consumers.

18 **Q. HOW CAN THE COMMISSION PROMOTE RATES THAT ARE FAIR AND AFFORDABLE?**

19 A. The Commission can promote rate affordability by carefully scrutinizing the claimed
20 expenses underlying Ameren's request for a rate increase. Expenses including
21 operations and maintenance expenses, labor expenses and administrative and general
22 expenses make up the largest driver of revenue requirement. The rate of return is

1 another key factor in determining the Company's revenue requirement and
2 ultimately customer rates. In determining the return on investment, the Commission
3 typically recognizes that there is a range of rates of return that can allow a utility the
4 opportunity to earn a reasonable return on investment. To promote affordability the
5 Commission should adopt a rate of return at the bottom of the reasonable range. As
6 I will discuss in future rate design testimony, the structure of rates is also important
7 in promoting rate affordability. By minimizing mandatory fixed charges, the
8 Commission can promote affordability by providing customers a better ability to
9 manage their electric bills by controlling usage.

10 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

11 **A. Yes.**

2006-2011 Unemployment Rate Statistics For Ameren UE Service Area Counties

Area	2006	2007	2008	2009	2010	2011	Increase 2006-2011
Adair County	4.3%	4.8%	5.1%	6.7%	7.1%	7.5%	74.4%
Andrahn County	4.4%	4.9%	6.0%	9.5%	8.9%	8.0%	81.8%
Boone County	3.3%	3.7%	4.3%	6.4%	6.4%	5.8%	75.8%
Caldwell County	5.3%	5.4%	6.5%	9.9%	9.4%	8.9%	67.9%
Callaway County	4.3%	4.4%	5.2%	8.2%	8.0%	7.5%	74.4%
Camden County	4.7%	4.8%	6.0%	9.9%	11.0%	10.7%	127.7%
Cape Girardeau County	4.1%	4.2%	5.0%	7.4%	7.5%	7.1%	73.2%
Carroll County	4.6%	5.0%	6.8%	10.6%	10.6%	10.1%	119.6%
Chariton County	5.0%	5.5%	5.9%	9.9%	8.7%	8.7%	74.0%
Clark County	5.0%	5.5%	5.9%	12.2%	10.6%	9.0%	80.0%
Clay County	4.3%	4.3%	5.0%	8.6%	8.5%	7.7%	79.1%
Clinton County	4.9%	5.1%	5.7%	10.0%	10.4%	10.0%	104.1%
Cole County	3.8%	3.9%	4.3%	6.9%	6.8%	6.4%	68.4%
Cooper County	4.3%	4.4%	5.5%	9.1%	8.9%	8.6%	100.0%
Crawford County	5.7%	6.9%	7.8%	11.2%	11.0%	10.0%	75.4%
Davless County	4.4%	4.4%	5.2%	9.1%	9.5%	8.9%	102.3%
DeKalb County	5.3%	5.1%	6.1%	9.6%	8.9%	8.3%	56.6%
Dunklin County	7.0%	7.9%	7.7%	10.9%	10.7%	10.4%	48.6%
Franklin County	5.3%	5.5%	7.2%	12.2%	10.7%	9.3%	75.5%
Gasconade County	5.4%	5.5%	7.4%	11.8%	10.2%	9.2%	70.4%
Gentry County	4.0%	4.0%	4.3%	6.4%	7.3%	6.7%	67.5%
Howard County	4.4%	4.4%	5.8%	8.6%	8.0%	7.6%	72.7%
Iron County	5.4%	5.3%	5.5%	9.0%	11.3%	10.3%	90.7%
Jefferson County	4.9%	5.1%	6.6%	10.8%	10.1%	8.9%	81.6%
Knox County	3.9%	3.8%	4.5%	6.1%	6.6%	6.3%	61.5%
Lewis County	3.7%	3.9%	4.7%	8.4%	8.0%	6.5%	75.7%
Lincoln County	5.2%	5.6%	7.6%	12.0%	11.3%	10.2%	96.2%
Linn County	6.5%	6.3%	6.7%	9.7%	10.8%	10.8%	66.2%
Livingston County	4.2%	4.4%	5.0%	7.9%	8.1%	8.1%	92.9%
Madison County	5.3%	5.6%	5.9%	10.5%	10.1%	9.2%	73.6%

2006-2011 Unemployment Rate Statistics For Ameren UE Service Area Counties

Area	2006	2007	2008	2009	2010	2011	Increase 2006-2011
Maries County	4.3%	5.1%	6.0%	8.2%	7.9%	7.3%	62.2%
Miller County	5.2%	5.2%	6.5%	11.9%	12.1%	11.3%	117.3%
Mississippi County	6.4%	6.5%	7.0%	8.8%	10.0%	10.5%	64.1%
Monticau County	4.6%	4.6%	5.3%	8.3%	8.1%	7.6%	65.2%
Monroe County	5.4%	5.7%	6.7%	13.2%	12.5%	10.6%	96.3%
Montgomery County	5.4%	5.4%	6.9%	12.0%	10.7%	10.1%	87.0%
Morgan County	6.6%	6.1%	7.3%	12.8%	12.4%	11.5%	74.2%
New Madrid County	6.4%	6.8%	6.9%	9.5%	8.9%	9.5%	48.4%
Osage County	4.6%	4.7%	5.9%	6.9%	6.8%	6.3%	37.0%
Pemiscot County	6.6%	6.5%	7.2%	12.0%	10.1%	10.2%	54.5%
Pettis County	5.0%	5.2%	6.0%	8.9%	8.7%	8.3%	66.0%
Pike County	5.1%	5.0%	5.5%	9.3%	9.1%	8.1%	58.8%
Ralls County	4.9%	4.8%	5.2%	8.9%	8.0%	7.4%	51.0%
Randolph County	4.9%	5.3%	5.9%	10.8%	9.7%	9.4%	91.8%
Ray County	5.2%	5.3%	6.1%	10.2%	10.7%	9.9%	90.4%
Reynolds County	6.7%	6.8%	7.1%	13.3%	13.2%	12.9%	92.5%
Saint Charles County	3.9%	4.0%	5.3%	8.7%	8.3%	7.3%	87.2%
Saint Francois County	5.8%	5.8%	6.8%	11.2%	11.2%	10.5%	81.0%
Saint Louis City	6.9%	7.0%	7.6%	11.9%	12.8%	11.7%	69.6%
Saint Louis County	4.7%	4.9%	5.8%	9.1%	9.1%	8.2%	74.5%
Saline County	4.5%	5.0%	5.5%	7.9%	8.2%	7.8%	73.3%
Schuyler County	5.1%	5.7%	6.2%	8.1%	8.4%	7.5%	47.1%
Scotland County	4.3%	4.7%	6.4%	8.1%	7.4%	6.4%	48.8%
Scott County	5.2%	5.8%	6.3%	9.0%	8.8%	8.6%	65.4%
Ste. Genevieve County	4.6%	4.6%	5.7%	9.6%	9.4%	8.8%	91.3%
Stoddard County	5.6%	6.3%	7.3%	9.7%	8.9%	9.0%	60.7%
Sullivan County	5.4%	6.1%	5.6%	6.9%	6.9%	6.8%	25.9%
Warren County	5.3%	5.3%	7.2%	11.5%	10.5%	9.0%	69.8%
Washington County	8.0%	8.2%	9.9%	14.5%	13.4%	12.0%	50.0%
All Missouri	4.8%	5.0%	5.9%	9.4%	9.4%	8.6%	79.2%