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APR 20 2007

Missouri Public
Service Commission

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

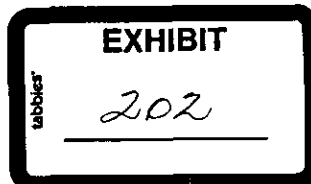
JAMES A. BUSCH

UNION ELECTRIC COMPANY d/b/a

AMERENUE

CASE NO. ER-2007-0002

**Jefferson City, Missouri
December 2006**



Staff
Exhibit No. 202
Case No(s). ER-2007-0002
Date 3/28/07
Rptr. ff

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

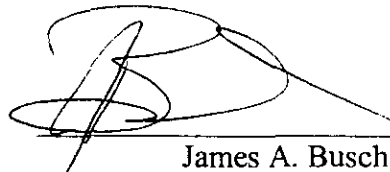
In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Electric)
Service Provided to Customers in the)
Company's Missouri Service Area.)

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 27th 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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DIRECT TESTIMONY

OF

JAMES A. BUSCH

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DIRECT TESTIMONY

OF

JAMES A. BUSCH

UNION ELECTRIC COMPANY d/b/a

AMERENUE

CASE NO. ER-2007-0002

Q. Please state your name and business address.

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

Q. By whom are you employed and in what capacity?

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?

A. Yes I am.

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.

Executive Summary

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

Direct Testimony of
James A. Busch

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?

Direct Testimony of
James A. Busch

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

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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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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.