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Missouri Public  
Service Commission

Exhibit No.: 240  
Issues: Rate Design  
Witness: James C. Watkins  
Sponsoring Party: MO PSC Staff  
Type of Exhibit: Rebuttal Testimony  
Case No.: ER-2007-0002  
Date Testimony Prepared: February 5, 2007

**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

Staff exhibit no. 240  
Date 3/12/07 Case No. ER-2007-0002  
Reporter \_\_\_\_\_

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

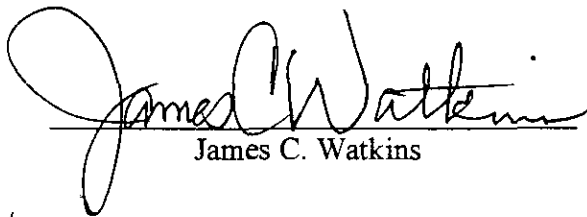
In the Matter of Union Electric Company )  
d/b/a AmerenUE for Authority to File )  
Tariffs Increasing Rates for Electric )  
Service Provided to Customers in the )  
Company's Missouri Service Area. )

Case No. ER-2007-0002

**AFFIDAVIT OF JAMES C. WATKINS**

**STATE OF MISSOURI** )  
 ) ss  
**COUNTY OF COLE** )

James C. Watkins, of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 5 pages of Rebuttal Testimony to be presented in the above case, that the answers in the following Rebuttal 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 C. Watkins

Subscribed and sworn to before me this 2<sup>nd</sup> day of February, 2007.



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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**REBUTTAL TESTIMONY**

**OF**

**JAMES C. WATKINS**

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

**AMERENUE**

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

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**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

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| 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                     |
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| 13. Union Electric Company               | Case Nos. EC-87-114 & EC-87-115       |
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| 42. The Empire District Electric Company | Case No. ER-2004-0570                 |
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| 45. Aquila, Inc. (MPS & L&P)             | Case Nos. ER-2005-0436 & HR-2005-0450 |
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