

Exhibit No.:
Witness: James R. Dauphinais
Type of Exhibit: Surrebuttal Testimony
Issues: Off-System Sales Revenue and Margin
Sponsoring Party: Missouri Industrial Energy Consumers
Case No.: ER-2008-0318

**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) **Case No. ER-2008-0318**
Rates for Electric Service Provided to Customers)
in the Company's Missouri Service Area.)
_____)

Surrebuttal Testimony and Schedule of

James R. Dauphinais

On Behalf of

Missouri Industrial Energy Consumers

MIEC Exhibit No. 604
Case No(s): ER-2008-0318
Date: 12/30/2008



Project 8983
November 5, 2008

**NON-
PROPRIETARY
VERSION**

**BEFORE THE PUBLIC SERVICE COMMISSION
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)
)
) **Case No. ER-2008-0318**
)
)
)

Surrebuttal Testimony of James R. Dauphinais

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

2 A James R. Dauphinais. My business address is 16690 Swingley Ridge Road, Suite
3 140, Chesterfield, Missouri 63017.

4 **Q ARE YOU THE SAME JAMES R. DAUPHINAIS WHO HAS PREVIOUSLY FILED**
5 **TESTIMONY IN THIS PROCEEDING?**

6 A Yes.

INTRODUCTION AND SUMMARY

8 **Q ON WHOSE BEHALF ARE YOU PRESENTING THIS SURREBUTTAL**
9 **TESTIMONY?**

10 A This testimony is presented on behalf of the Missouri Industrial Energy Consumers
11 (MIEC).

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1 **Q PLEASE PROVIDE THE SCOPE OF YOUR SURREBUTTAL TESTIMONY.**

2 A I respond to the Rebuttal Testimony of AmerenUE witness Mr. Schukar in regard to
3 his proposed level of off-system sales revenues and his criticism of my
4 recommendation in my Direct Testimony to increase AmerenUE's supplemental direct
5 case off-system sales margin by \$64.5 million. In addition, I update my
6 recommendation to the Commission in regard to off-system sales.

7 **Q CAN YOU PLEASE SUMMARIZE YOUR CONCLUSIONS AND**
8 **RECOMMENDATION?**

9 A Yes. AmerenUE's rebuttal case revisions to its PROSYM production cost simulations
10 fail to adequately capture the clear, known and measurable upward trend in
11 wholesale spot market electricity prices that began in 2002 and has continued
12 through the end of the September 30, 2008 true-up period for this proceeding. This
13 understates AmerenUE's normalized off-system sales. To correct this flaw,
14 AmerenUE's net fuel cost, which includes its off-system sales margin as a credit
15 against fuel cost, should in this proceeding be based on a production cost simulation
16 rerun that has been performed using hourly spot market prices for electricity that
17 average to \$45.56 per MWh. This corresponds to the September 30, 2008 endpoint
18 of the rolling 8760-hour average spot market electricity price trend line I present on
19 page 5 in my Figure JRD-2.

20 If AmerenUE chooses in its November 7, 2008 true-up to provide a rerun of its
21 rebuttal case PROSYM run, the rerun can be used by the Commission as the basis of
22 AmerenUE's net fuel cost¹ provided:

¹ After adjustments for off-system capacity sales, off-system ancillary service sales, lost Taum Sauk off-system sales and margin from RSG make whole payments.

- 1 i. The hourly spot market prices for wholesale electricity used an input to the
2 rerun average to at least \$45.56 per MWh.
- 3 ii. The rerun is performed in a reasonable manner.
- 4 iii. AmerenUE provides a complete copy of all input and output files associated
5 with the rerun in sufficient time to allow the parties to assess the
6 reasonableness of the rerun and file responsive testimony by
7 December 23, 2008.

8 Otherwise, unless the Commission has access to an equivalent reasonable
9 production cost rerun from Staff, AmerenUE's rebuttal case net fuel cost should be
10 reduced by \$12.2 million, my estimate of the change from AmerenUE's rebuttal case
11 that would result from my recommended production cost model rerun.

12 **CRITIQUE OF AMERENUE'S REBUTTAL CASE ON OFF-SYSTEM SALES**

13 **Q HAS AMERENUE IN ITS REBUTTAL CASE UPDATED ITS POSITION ON**
14 **OFF-SYSTEM SALES?**

15 A Yes. As summarized in the Rebuttal Testimonies of AmerenUE witnesses Mr. Finnell
16 and Mr. Schukar, AmerenUE reran its PROSYM production cost model based on spot
17 market prices for the two years ending September 30, 2008. This raised AmerenUE's
18 total off-system sales revenues from its supplemental direct case level of \$449.7
19 million to \$471.5 million. Considering AmerenUE's corresponding revised fuel cost
20 for these sales, AmerenUE's proposed off-system sales margin from energy sales
21 increased from ***** in its supplemental direct case to *****.
22 This amounts to an increase of \$17.6 million. In my Direct Testimony, I
23 recommended an increase of \$64.5 million.

1 **Q HOW DO YOU RESPOND TO AMERENUE'S REVISION?**

2 A AmerenUE's revision is a step in the right direction in that it captures more of the
3 upward trend in wholesale spot market prices by pushing AmerenUE's two year
4 average of spot prices forward by six months. However, AmerenUE's normalization
5 approach for spot market prices, even with the forward shift of six months, is not
6 sufficient because AmerenUE's averaging of more than one 12-month period of
7 historical spot market prices still erases a significant portion of the known and
8 measurable upward trend in spot prices that began in 2002.

9 **Q MR. SCHUKAR IN HIS REBUTTAL TESTIMONY PRESENTS A FIGURE, FIGURE**
10 **SES-R1, THAT HE CLAIMS SHOWS THERE HAS BEEN NO FUNDAMENTAL**
11 **SHIFT IN MARKET PRICES THAT WOULD SUGGEST ONE CANNOT RELY ON A**
12 **FULL TWO-YEAR PERIOD AND MARKET PRICES HAVE BEEN RELATIVELY**
13 **STABLE WITH ONLY SHORT-TERM MARKET PRICE INCREASES IN MID-2006**
14 **AND MID-2008 (SCHUKAR REBUTTAL TESTIMONY AT 6-7). DO YOU AGREE?**

15 A No. First, the scale on Mr. Schukar's Figure SES-R1, which has a range of \$350, is
16 far too coarse to reveal the relevant upward price trend because the trend is on the
17 order of tens of dollars. Second, a plot of individual hourly LMPs, which is what
18 Figure SES-R1 is, cannot readily reveal a price trend due to the noise in the plot
19 introduced by the volatility of individual hourly LMPs.

20 For convenience, I have reproduced Mr. Schukar's Figure SES-R1 as my
21 Figure JRD-1 below. Right below it, I have presented my Figure JRD-2, which plots a
22 rolling 8760-hour average of the same historical hourly weighted average LMP values
23 for January 1, 2006 through September 30, 2008 that are presented in Figure

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1 SES-R1. I have also placed a trend line on Figure JRD-2 based on the plotted
2 values.

Figure JRD-1

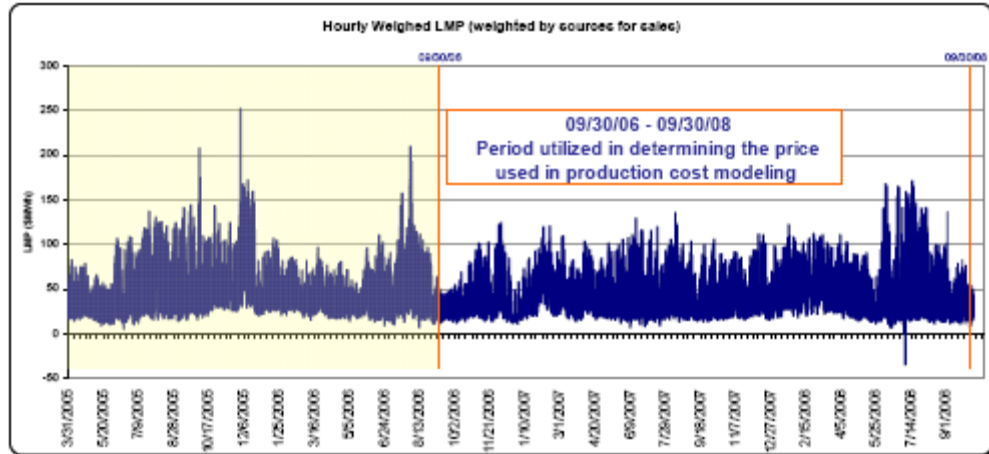
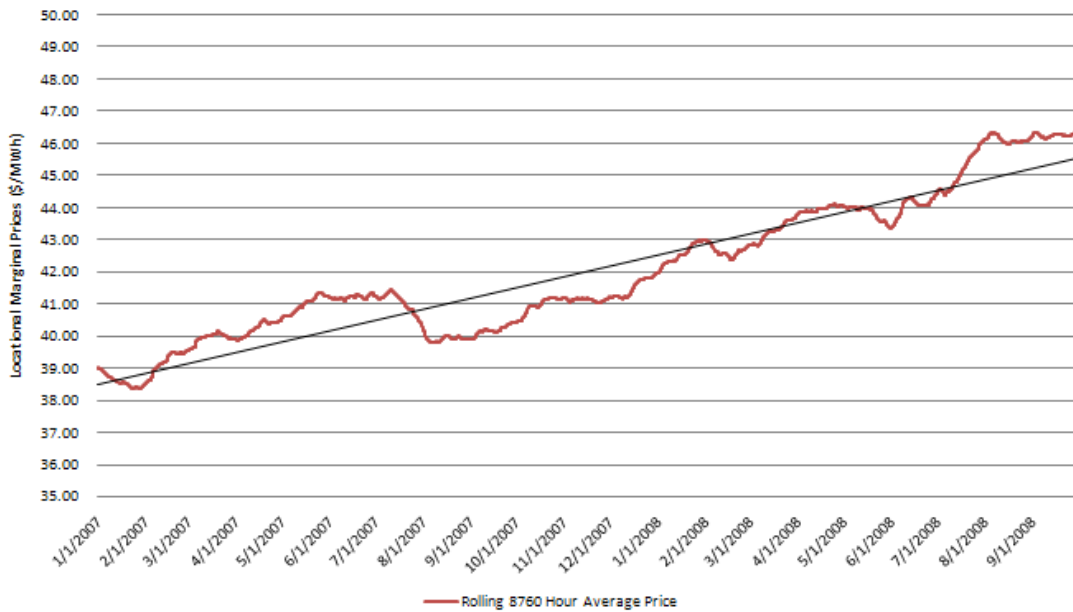


Figure JRD-2

Hourly Weighted LMP
(weighted by sources for sales)
Rolling 8760 Hour Average
For 8760 Hours Ended
01/01/07 - 09/30/08

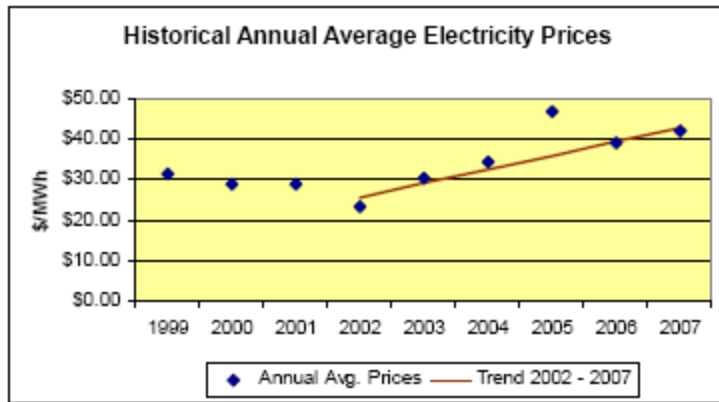


1 As can be seen from Figure JRD-2 above there has been a clear, known and
2 measurable upward trend in the weighted average LMP for AmerenUE's generation
3 nodes over the period of January 1, 2007 through September 30, 2008 -- a trend that
4 cannot be detected from the manner in which AmerenUE presented the data in Mr.
5 Schukar's Figure SES-R1 (Figure JRD-1).

6 **Q IS THERE ANY EVIDENCE THIS UPWARD TREND WAS NOT JUST A**
7 **SHORT-TERM MARKET PHENOMENON?**

8 **A** Yes. For convenience, I have below reproduced as my Figure JRD-3, Figure 3 of
9 Staff witness Dr. Proctor's Rebuttal Testimony.

Figure JRD-3



10 Figure JRD-3 shows that the upward price trend captured in my Figure JRD-2
11 above for January 1, 2007 through September 30, 2008 is a consistent continuation
12 of the gradual upward trend in spot market prices that has been ongoing since 2002.
13 The upward price trend of Figure JRD-2 is not a short-term market phenomenon. It is
14 an ongoing upward trend in spot prices that began in 2002.

15 Figure JRD-3 is also useful in regard to showing why a simple averaging of
16 past spot prices is a flawed normalization technique. Throwing out 2005 as a
17 short-term aberration caused by Hurricanes Katrina and Rita plus rail disruptions and

1 replacing it with the mean of 2004 and 2006 prices, the historical annual average
2 electricity prices from 2002 through 2007 are as follows:

Table 1

| <u>Year</u> | <u>Annual Average Price (\$ per MWh)</u> |
|-------------|--|
| 2002 | \$23.19 |
| 2003 | \$30.31 |
| 2004 | \$34.25 |
| 2005 | \$36.63 [#] |
| 2006 | \$39.01 |
| 2007 | \$41.94 |
| Average | \$34.22 |

[#]Mean of 2004 and 2006 used in place of actual 2005 price.

3 Under AmerenUE's normalization methodology, AmerenUE would perform a
4 simple average of the data yielding "normalized" price of \$34.22 per MWh. However,
5 not even AmerenUE has proposed such an unrealistically low value in this
6 proceeding. As I indicated in my Direct Testimony, if hourly prices from more than
7 one year's worth of data are going to be averaged in order to obtain normalized
8 hourly prices, those averaged prices must be scaled up to compensate for the
9 removal of the price trend that results from that averaging. Since AmerenUE does
10 not scale up its two year average of spot prices to compensate for the erasure of
11 price trends by the averaging process, AmerenUE's normalized hourly prices are
12 unreasonably low.

1 **RESPONSE TO AMERENUE'S CRITICISM OF MIEC'S**
2 **RECOMMENDED OFF-SYSTEM SALES ADJUSTMENT**

3 **Q WHAT WAS AMERENUE'S RESPONSE IN REBUTTAL TO YOUR**
4 **RECOMMENDATION THAT AMERENUE'S OFF-SYSTEM SALES MARGIN**
5 **SHOULD BE INCREASED BY \$64.5 MILLION BASED ON AMERENUE'S**
6 **JANUARY 10, 2008 FUEL BUDGET PROSYM RUNS?**

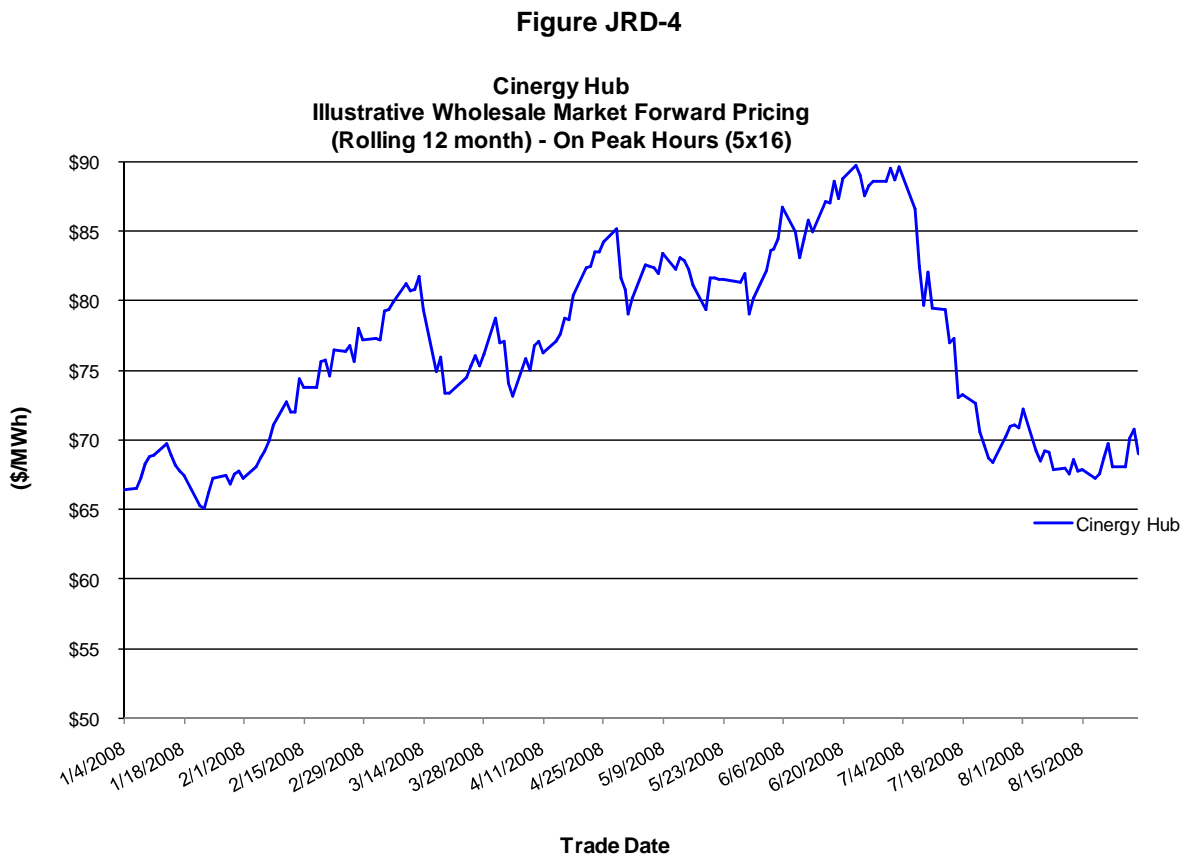
7 **A**Mr. Schukar criticized my use of the January 10, 2008 fuel budget PROSYM run as a
8 proposal to set rates on a forecasted basis that would overstate AmerenUE's
9 off-system sales for ratemaking purposes.

10 **Q HOW DO YOU RESPOND?**

11 **A**There appears to be a misunderstanding of why I used the results from AmerenUE's
12 January 10, 2008 fuel budget PROSYM runs as the basis of my recommended
13 upward adjustment of \$64.5 million to AmerenUE's supplemental direct case
14 proposed off-system sales margin. I utilized the January 10, 2008 fuel budget
15 PROSYM run results as a proxy for an AmerenUE PROSYM run with a realistic set of
16 spot market price inputs. I was not utilizing the January 10, 2008 fuel budget
17 PROSYM run as a projection of AmerenUE's future off-system sales, but rather as
18 the best available estimate at that time of AmerenUE's off-system sales margin during
19 the test year as adjusted for known and measurable changes through
20 September 30, 2008. I did so because no better PROSYM run had been performed
21 by the Company and the Staff had yet to present its own production cost analysis.

1 Q CAN YOU PLEASE SHOW THE BASIS OF YOUR SELECTION OF THE
2 JANUARY 10, 2008 FUEL BUDGET PROSYM RUN AS A PROXY FOR A PROSYM
3 PERFORMED WITH A REALISTIC SET OF SPOT MARKET PRICES?

4 A Yes. Figure JRD-4 shows the rolling prompt 12-month forward market curve I had
5 access to when I selected my proxy.



6 I selected an AmerenUE fuel budget PROSYM run that was performed when
7 forward prices were at their lowest on this curve (early January). I felt this was the
8 most reasonable of AmerenUE's fuel budget PROSYM runs performed over the
9 period covered by the prompt 12-month forward curve.

1 Q HOW DO YOU RESPOND TO MR. SCHUKAR POINTING OUT IN HIS REBUTTAL
2 TESTIMONY THAT AMERENUE DID NOT MEET ITS 2006 AND 2007 FUEL
3 BUDGET FORECASTS OF OFF-SYSTEM SALES MARGINS AND MR.
4 SCHUKAR'S CRITICISM OF YOUR CLAIMS OF CONSERVATISM?

5 A I was not trying to forecast AmerenUE's 2008 off-system sales margin in my Direct
6 Testimony, but rather trying to select the most reasonable proxy available to estimate
7 AmerenUE's off-system sales margin for the test year as adjusted for known and
8 measurable changes through September 30, 2008. Furthermore, as I have noted in
9 my Direct Testimony, for the first six months of 2008, the estimate was conservative
10 versus actual off-system sales margins. Regardless, as I will discuss later, my
11 updated off-system sales recommendation that I will present in this testimony is not
12 based on AmerenUE's January 10, 2008 fuel budget PROSYM run.

13 Q HOW DO YOU RESPOND TO MR. SCHUKAR'S REBUTTAL TESTIMONY
14 COMMENTS ON THE VARIABILITY OF AMERENUE'S ACTUAL OFF-SYSTEM
15 SALES MARGIN?

16 A I agree there can be quite a bit of variability both upward and downward. This is why
17 I have recommended that if the Commission adopts a fuel adjustment clause for
18 AmerenUE, it should include a pass-through of AmerenUE's off-system sales margins
19 to ratepayers.

20 Q HOW DO YOU RESPOND TO MR. SCHUKAR'S CRITICISM IN HIS REBUTTAL
21 TESTIMONY OF YOUR DIRECT TESTIMONY ON PRICE TRENDS?

22 A As I have discussed earlier in this testimony, there has been a clear, known and
23 measurable growth in spot market prices since 2002. In regard to his criticism of

1 selectively using only four data points in my Direct Testimony, my Figure JRD-2 in
2 this testimony consists of thousands of data points taken over the past two years and
3 Dr. Proctor's Rebuttal Testimony Figure 3, which I have reproduced as my Figure
4 JRD-3 earlier in this testimony, examines annual spot price averages all the way back
5 to 1999. There is abundant evidence showing there has been a steady consistent
6 growth in spot electricity prices since 2002 even when the market aberrations of 2005
7 are removed.

8 **Q HOW DO YOU RESPOND TO MR. SCHUKAR'S STATEMENT THAT YOU HAVE**
9 **PRESENTED NO EVIDENCE THAT SUCH A TREND WILL CONTINUE?**

10 A Figure JRD-2 clearly shows the price trend did continue through the known and
11 measurable adjustment period which ended on September 30, 2008. In addition, the
12 Commission is not setting AmerenUE's off-system sales margins for rates based on
13 projections of spot market prices after September 30, 2008. Finally, my updated
14 recommendation below does not rely on the upward price trend continuing beyond
15 September 30, 2008.

16 **UPDATE TO MIEC RECOMMENDATION OR OFF-SYSTEM SALES**

17 **Q DO YOU HAVE AN UPDATE TO YOUR RECOMMENDATION TO THE**
18 **COMMISSION IN REGARD TO OFF-SYSTEM SALES?**

19 A Yes. My Direct Testimony recommendation of increasing AmerenUE's supplemental
20 direct case off-system sales margin by \$64.5 million was based on the most
21 reasonable PROSYM run that I felt was available at the time of the filing of my Direct
22 Testimony to estimate AmerenUE's off-system sales margin for ratemaking purposes.
23 Since that time, actual spot prices through the end of the true-up period

1 (September 30, 2008) have become available and Staff has independently verified,
2 that for a given set of assumptions, AmerenUE's PROSYM modeling gives a
3 reasonable estimate of AmerenUE's net fuel cost (total fuel and purchased power
4 cost less off-system energy sales revenues). For these reasons, my updated
5 recommendation is that AmerenUE's net fuel cost, which includes AmerenUE's
6 off-system sales margin, be set based on the September 30, 2008 endpoint of the
7 rolling 8760-hour electricity spot market price trend line found in my Figure JRD-2.
8 This is an average spot electricity market price of \$45.56 per MWh, which is \$1.99 per
9 MWh higher than the \$43.57 per MWh price AmerenUE used in its rebuttal case
10 PROSYM run that was based on the average of spot market prices for the two years
11 ended September 30, 2008.

12 If AmerenUE chooses in its November 7, 2008 true-up to provide a rerun of its
13 rebuttal case PROSYM run, the rerun can be used by the Commission as the basis of
14 AmerenUE's net fuel cost² provided:

- 15 i. The hourly spot market prices for wholesale electricity used an input to the
16 rerun average to at least \$45.56 per MWh.
- 17 ii. The rerun is performed in a reasonable manner.
- 18 iii. AmerenUE provides a complete copy of all input and output files associated
19 with the rerun in sufficient time to allow the parties to assess the
20 reasonableness of the rerun and file responsive testimony by
21 December 23, 2008.

22 Otherwise, unless the Commission has access to an equivalent reasonable
23 production cost rerun from Staff, AmerenUE's rebuttal case net fuel cost should be
24 reduced by \$12.2 million, my estimate of the change from AmerenUE's rebuttal case
25 that would result from my recommended production cost model rerun.

² After adjustments for off-system capacity sales, off-system ancillary service sales, lost Taum Sauk off-system sales and margin from RSG make whole payments.

1 Q PLEASE SUMMARIZE HOW YOU CALCULATED YOUR ESTIMATE OF \$15.7
2 MILLION.

3 A The estimate includes adjustments to fuel costs, purchased power costs and
4 non-bilateral off-system sales revenues. For fuel oil and natural gas costs, I
5 multiplied the total fuel oil and natural gas cost from AmerenUE's production cost
6 simulation with off-system sales times the ratio of the average July 24, 2007 through
7 July 23, 2008³ Platts *Gas Daily* reported cash price for natural gas at Henry Hub
8 (adjusted by a historic basis differential between Panhandle Eastern and Henry Hub)
9 to AmerenUE's averaged Panhandle Eastern market price. I did not estimate the fuel
10 oil cost impact separate from the natural gas cost impact because fuel oil is a
11 substantially smaller contribution to AmerenUE's costs than natural gas.

12 For purchased power costs, I multiplied the total non-APL purchased power
13 cost from AmerenUE's production cost simulation with off-system sales times the ratio
14 of \$45.56 to \$43.57.

15 My estimate for the off-system sales revenue adjustment was calculated using
16 a method similar to that I used to estimate the adjustment to purchased power costs,
17 but applied to AmerenUE's non-bilateral off-system sales revenue. My calculations
18 for the net \$12.2 million adjustment in net fuel cost are detailed in Schedule JRD-2.

³July 23, 2008 was the last date in which a rolling 12-month weighted average of AmerenUE's generation node LMPs was at \$46.03 per MWh. As such, the 12-months ending July 23, 2008 provide a good basis for spot natural gas prices compatible with my recommended adjustment to spot electricity prices.

1 **CONCLUSION**

2 **Q CAN YOU PLEASE SUMMARIZE YOUR CONCLUSIONS AND**
3 **RECOMMENDATION?**

4 A Yes. AmerenUE's rebuttal case revisions to its PROSYM production cost simulations
5 fail to adequately capture the clear, known and measurable upward trend in
6 wholesale spot market electricity prices that began in 2002 and has continued
7 through the end of the September 30, 2008 true-up period for this proceeding. This
8 understates AmerenUE's normalized off-system sales. To correct this flaw,
9 AmerenUE's net fuel cost, which includes its off-system sales margin as a credit
10 against fuel cost, should in this proceeding be based on a production cost simulation
11 rerun that has been performed using hourly spot market prices for electricity that
12 average to \$45.56 per MWh. This corresponds to the September 30, 2008 endpoint
13 of the rolling 8760-hour average spot electricity price trend line I present above in my
14 Figure JRD-2.

15 If AmerenUE chooses in its November 7, 2008 true-up to provide a rerun of its
16 rebuttal case PROSYM run, the rerun can be used by the Commission as the basis of
17 AmerenUE's net fuel cost⁴ provided:

- 18 i. The hourly spot market prices for wholesale electricity used an input to the
19 rerun average to at least \$45.56 per MWh.
- 20 ii. The rerun is performed in a reasonable manner.
- 21 iii. AmerenUE provides a complete copy of all input and output files associated
22 with the rerun in sufficient time to allow the parties to assess the
23 reasonableness of the rerun and file responsive testimony by
24 December 23, 2008.

25 Otherwise, unless the Commission has access to an equivalent reasonable
26 production cost rerun from Staff, AmerenUE's rebuttal case net fuel cost should be

⁴ After adjustments for off-system capacity sales, off-system ancillary service sales, lost Taum Sauk off-system sales and margin from RSG make whole payments.

1 reduced by \$12.2 million, my estimate of the change from AmerenUE's rebuttal case
2 that would result from my recommended production cost model rerun.

3 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

4 **A** Yes, it does.

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Union Electric Company
d/b/a AmerenUE

Missouri Public Service Commission
Case No. ER-2008-0318

Estimate of the Impact on Net Fuel Cost of Adjusting AmerenUE's Fuel Oil, Natural Gas and Wholesale Electricity Spot Prices

James R. Dauphinais
Schedule JRD-2
Non-Proprietary