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Witness: Lena M. Mantle
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

LENA M. MANTLE

UNION ELECTRIC COMPANY D/B/A AMERENUE

CASE NO. ER-2008-0318

Jefferson City, Missouri
November 2008

****Denotes Highly Confidential Information****

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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-2008-0318

AFFIDAVIT OF LENA M. MANTLE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Lena M. Mantle, of lawful age, on her oath states: that she has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 12 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.

Lena M Mantle

Lena M. Mantle

Subscribed and sworn to before me this 5th day of November, 2008.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

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

Susan L Sundermeyer

Notary Public

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CASE NO. ER-2008-0318

Q. Please state your name and business address.

A. My name is Lena M. Mantle and my business address is Missouri Public Service Commission, P. O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same Lena Mantle that contributed to the Staff's Cost of Service Report (Staff Report) filed on August 28, 2008 in this case?

A. Yes, I am.

Q. What is the purpose of your surrebuttal testimony?

A. First I am making some corrections to the Fuel Adjustment Clause (FAC) Section of the Staff Report. Then I will address the rebuttal testimony regarding the need for a FAC of several AmerenUE witnesses.

Corrections to Staff Report

Q. What are your corrections to the Staff Report?

A. The percent of dollars attributed to the different fuel types and purchased power for The Empire District Electric Company is incorrect. I indicated in a data request response to an AmerenUE data request that I needed to make such a correction. The table below has the correct percentages.

Table LM1

	Aquila ER-2007-0004		Empire ER-2008-0093		AmerenUE ER-2007-0002		AmerenUE ER-2008-0318	
	MWh	$	MWh	$	MWh	$	MWh	$
Nuclear					21.5%	8.4%	22.2%	8.9%
Coal	67.5%	42.5%	42.2%	23.6%	68.8%	79.6%	69.8%	82.5%
Hydro			1.2%	0.0%	4.9%	0.0%	4.7%	0.0%
Natural Gas	1.0%	3.8%	20.7%	44.1%	0.2%	3.5%	0.2%	1.2%
Purchased-power (Contract)	17.9%	13.3%	30.2%	21.2%	3.1%	5.4%	2.0%	6.0%
Purchased-power (Spot)	13.7%	40.4%	5.7%	11.0%	1.5%	5.1%	1.2%	1.5%

The narrative in the Staff Report regarding Table LM1 remains correct even with this change.

I also need to correct the definition of Net System Input in footnote 7 at the bottom of page 60 of the Staff Report. Net System input includes the energy required to meet retail and wholesale customers' needs. It does not include the fuel needed for off-system sales.

Surrebuttal Testimony

Q. Which AmerenUE witnesses will you be responding to?

A. My surrebuttal responds to five AmerenUE witnesses that filed rebuttal testimony regarding a FAC on behalf of AmerenUE.

- Thomas R. Voss, President and Chief Executive Officer of AmerenUE
- Martin J. Lyons, Jr., Senior Vice President and Chief Accounting Officer of AmerenUE
- Ajay K. Arora, Director of Corporate Planning at AmerenUE
- Robert K. Neff, Vice President of Coal Supply, Ameren Energy Services

- Scott A. Glaeser, Vice President of Gas Supply and System Control

Q. How is your surrebuttal structured?

A. The rebuttal testimony of these witnesses centered on five broad areas respecting a FAC for AmerenUE:

(1) Uncertainty of fuel costs;

(2) AmerenUE faces the same amount of fuel and purchased power uncertainty as Aquila, Inc. (Aquila) and The Empire District Electric Company (Empire);

(3) Treatment of off-system sales;

(4) Effect of regulatory lag; and

(5) AmerenUE should not be penalized for prudent planning.

Multiple AmerenUE witnesses provided rebuttal testimony in all but one of these areas, so my surrebuttal testimony is structured by these areas instead of by witness.

Q. Has the rebuttal testimony changed Staff's recommendation regarding that the Commission not authorize AmerenUE to use a FAC?

A. No. Staff still recommends that the Commission not allow AmerenUE a FAC in this case.

Volatility of Fuel Costs

Q. Are fuel costs volatile?

A. Yes fuel costs are volatile. However, the degree of volatility varies by fuel type, and there are procurement measures available to reduce the volatility of each fuel type. Webster's New World Dictionary defines volatile as "likely to shift quickly and unpredictably." The spot price of natural gas has been very volatile over the past few years and. as described by AmerenUE witness Scott A. Glaeser, these fluctuations affect AmerenUE's fuel costs. However, Staff's fuel model estimates that natural gas costs are only 1.2% of AmerenUE's total fuel costs to serve its native load customers. Therefore, even a 50% increase in the cost of natural gas would not result in a large increase in the AmerenUE's total fuel costs.

Q. AmerenUE Witness Ajay K. Arora represents on page 10 of his rebuttal testimony that coal prices are just as volatile as natural gas prices. Do you agree that coal prices are volatile?

A. I agree that the <u>spot market price</u> for coal as shown by Mr. Arora is volatile. AmerenUE witness Robert K. Neff also describes how volatile the coal spot market is on page 7 of his rebuttal testimony. However, the NYMEX spot market for coal is a new market with very low total open interest.[1] However, AmerenUE is not buying its coal on the spot market. AmerenUE has mitigated the volatility of coal prices through its use of coal contracts which define the cost of coal on terms other than daily spot market prices. AmerenUE has over twenty coal contracts for the coal it needs and the majority of its contracts are for 2 to 6 years in length. AmerenUE's response to Staff Data Request No. 0219 on November 3, 2008 states that it has hedged ** ______________________________ ** coal needs for 2009 and ** ____ ** for 2010. AmerenUE's resopnse to Staff's data request is attached as Schedule 1.

Q. Does this mean that AmerenUE knows for certain what its total fuel costs are going to be with complete certainty through 2010?

A. No it does not. There are costs other than the cost for coal involved in AmerenUE's total fuel costs. However, the cost of coal is AmerenUE's largest expense and hedging does reduce the uncertainty of both coal costs and supply. However, the uncertainty

[1]" Open interest" refers to the number of open contracts of a given future or option contract.

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around coal costs is not unique relative to AmerenUE's other costs. Some level of uncertainty of costs as well as revenues is common with a majority of the AmerenUE's non-fuel cost of service.

Q. AmerenUE witness Robert Neff states that in the Staff Report you concluded that hedging provided AmerenUE with the ability to control markets and remove volatility of the market in the long run. (Neff Rebuttal, p. 12, l. 20 – p. 13, l. 1) Did you reach that conclusion?

A. No, I did not. In fact, on page 64, in the section of the Staff Report that I submitted, it states that Ameren cannot control the price of coal but the sheer amount of coal that Ameren purchases should enhance its ability to negotiate both coal and transportation prices. The Staff Report also states that since AmerenUE is likely to file another case to include the costs of the Sioux environmental upgrades that are scheduled to be completed by 2009, AmerenUE did not need a FAC in this case. I made no conclusions regarding AmerenUE's longer term ability to meet the criteria for an FAC. The markets are changing even to a greater degree today with the uncertainty about the status of the American and world economies. More information regarding markets, prices, and hedging past 2010 than exists today will be available in this next rate case.

If AmerenUE does not file a rate case soon after the Sioux environmental upgrades are completed, that is an indication it can absorb the costs of the upgrades for a period of time without them being in rate base. If AmerenUE can absorb those upgrades without having a rate case before the Commission, then it can handle the uncertainties around fuel costs and does not need a FAC.

Q. Did you suggest that AmerenUE has the ability to "control" costs as AmerenUE witness Martin J. Lyons states in his rebuttal testimony (p.18, l. 17-18)?

A. No, I did not. However, AmerenUE can mitigate much of coal price volatility due to the amount of coal that it purchases and the way its coal supply is procured.

Q. Much of AmerenUE's FAC rebuttal testimony focuses on the increasing cost of fuel and the uncertainty of future fuel costs. Is that an uncertainty to be concerned about?

A. Yes it is, but as I have indicated, there are different levels of uncertainty concerning different items. The uncertainty regarding non-spot market price volatility is much different from the uncertainty regarding spot market price volatility. There is no certainty that fuel costs will continue to increase indefinitely into the future, especially given recent negative trends in economic activity and unemployment. Costs have increased in the past for AmerenUE. Fuel costs changed over the twenty year period when AmerenUE did not file for rate increases. Increasing fuel cost, by itself, is not a reason for the Commission to grant AmerenUE a FAC. The Commission itself recognized this in its order in the last AmerenUE rate case. (Case No. ER-2007-0002, Report and Order, page 23)

Q. On page 15 of his rebuttal testimony Mr. Arora points to the range of potential coal costs he presented in his direct testimony as proof that AmerenUE's coal costs are volatile. Doesn't this show a lot of uncertainty around coal prices?

A. In his rebuttal testimony, Staff Witness Michael S. Proctor addresses why the uncertainty surrounding coal costs is likely to not be as great as appears in Mr. Arora's direct testimony.

AmerenUE's Level of Fuel and Purchased Power Uncertainty as Compared to Aquila and Empire

Q. Table AKA-R1 in Mr. Arora's rebuttal testimony shows a line that he titled Natural Gas and Net Power exposure (line [14] in the table). Does the fact that the "exposure" of AmerenUE in this table is similar to that of Aquila and Empire, indicate that AmerenUE's level of uncertainty in its fuel and purchased power costs are the same as Aquila's and Empire's?

A. No, it does not. A close look at the table shows that both Aquila and Empire are net purchasers of short-term, non-firm energy. AmerenUE, on the other hand, sells eight to ten times the amount of short-term, non-firm energy that it purchases. The only way that the percentages on line [14] can be similar among the three utilities as shown by Mr. Arora is by taking the absolute value of the difference between purchases and sales. Since Empire and Aquila are net purchasers of short term power, the Net Short-Term Purchases or Sales (line [8]) is calculated by subtracting the short-term sales from the short-term purchases. AmerenUE is a net seller of short-term power, so line [8] for AmerenUE is calculated as short-term sales minus short-term purchases.

In addition to the net of short-term, non-firm purchases and sales being very different, line [4] of this table demonstrates the difference between Empire and AmerenUE. Empire, with a forecasted 2008 summer peak of less than 15% of AmerenUE's 2008 forecasted peak, spent more for natural gas than AmerenUE did in 2006. Line [6] shows Aquila, with a 2008 forecasted peak of less than 25% of AmerenUE's 2008 forecasted peak, purchased about 3.5 times as much short-term, non-firm energy.

Q. Are there other differences between these two smaller electric utilities and AmerenUE?

A. AmerenUE witness Arora in his rebuttal testimony on page 14, states that Empire can hedge natural gas and Aquila can hedge its power purchases much like AmerenUE hedges coal. Hedging coal is very different from hedging natural gas. Unlike long term contracts for coal, the long term supply contracts for natural gas are not the norm. The spot market for natural gas has heavy trading where speculators can impact the cost. In comparison, the spot coal market is immature and most of the trading is still done through long term contracts.

Hedging power purchases are also different from hedging coal. Coal is a fuel source used to generate electricity. Purchased power is the output achieved by burning a fuel source. The purchased power market is typically correlated to the cost of running a combustion turbine. Purchased power contracts are also based on the costs of a combustion turbine and the natural gas used to generate the energy. There is little incentive for the seller of a purchased power contract to price energy below what it can achieve in the market. This is very different from the situation that AmerenUE has with regard to coal contracts.

Another difference is that, unlike Aquila and Empire, the volatility of gas costs has an offsetting impact on AmerenUE's off-system sales. Thus natural gas costs volatility does not impact AmerenUE's ability to earn a reasonable return in the same way this volatility impacts the earnings of Aquila and Empire.

In addition, neither of these two utilities, Aquila and Empire, at the time the Commission granted them FACs, were even close to the size of AmerenUE and therefore they did not have the same resources available to manage their fuel costs as AmerenUE does.

Treatment of Off-System Sales

Q. AmerenUE witnesses Arora and Lyons state in their rebuttal testimonies that you ignored the fact that off-system sales were included in AmerenUE's FAC. (Arora Rebuttal p. 2, l. 7-9; Lyons Rebuttal, p. 30, l. 15-17) Did you consider off-system sales in your analysis?

A. Yes. I discuss off-system sales in the Staff Report on page 64. I did not include off-system sales in my comparison of AmerenUE, Empire and Aquila. To do so would have resulted in a nonsensical comparison. It would have been a comparison of apples to grapefruits just like Mr. Arora did in his Table AKA-R1. The comparison that I made was between the energy generated and fuel cost to serve the native load customers of AmerenUE, Empire and Aquila.

Q. Did Staff consider off-system sales when making the decision to recommend the Commission not grant AmerenUE a FAC?

A. Yes, Staff did consider off-system sales. Without a FAC there is an incentive for AmerenUE to exceed the off-system sales margin revenues included in this case. These margins can then be used to offset cost increases and, if high enough, increase shareholder earnings.

Q. But under AmerenUE's FAC proposal, wouldn't 95% of any off-system sales margin above what is included in the base rates go back to the ratepayers?

A. Yes, it would. However, the incentive to AmerenUE to make the off-system sales would be greatly reduced. Under AmerenUE's proposal, it would only get $5 of every $100 of off-system sales margin above what is in base rates. With Staff's proposal, AmerenUE would get $100.

Impact of Regulatory Lag

Q. AmerenUE witnesses Lyons, Neff and Voss all discuss how a FAC is purportedly necessary to deal with regulatory lag. (Lyons Rebuttal p. 12; Neff Rebuttal p. 5. l. 9-10; Voss Rebuttal p. 2, l. 5-9 and p. 6, l. 7-8). Do you believe a FAC is necessary because of regulatory lag?

A. No, I don't believe that a FAC is necessary to deal with regulatory lag.

Q. Mr. Lyons points out in his Rebuttal Testimony (p. 10, 11-14) that the problem with relying on a series of rate cases to recover rising fuel cost is that the utility will never recover its fuel costs due to regulatory lag. Is this true?

A. It is only true if the only way that a utility has to recover the increased fuel cost is through raising rates. However, the Commission in its Report and Order in the last AmerenUE Rate Case (Case No. ER-2007-0002) stated that fuel costs that are not volatile but are simply rising are the worst reason to implement a FAC because the FAC would only allow the utility to recover a single cost without taking into account changes in other expenses and revenues. (page 23)

Q. Mr. Lyons' states in his rebuttal testimony (p. 6, l. 15-17) that the Commission granted Aquila and Empire FAC's based in part because of the earnings problems presented by regulatory lag. Is that what the Commission's orders state?

A. No. While the Commission does talk about the rising costs of fuel, the Commission did not mention regulatory lag anywhere in the Empire rate case Report and Order, Case No. ER-2008-0093. In the Aquila Report and Order for Case No. ER-2007-0004, regulatory lag was only mentioned in reference to Aquila's request for accounting authority orders.

Q. AmerenUE won't be able to file another rate case to recover the increase in its coal costs that go into effect on January 1, 2009 until next year. Shouldn't AmerenUE be able to recover this increase in coal costs through a FAC?

A. This was a choice made by AmerenUE. Prior to the filing of this very rate case, AmerenUE came in to discuss the filing with Staff. When AmerenUE told Staff it intended to file for an increase in early April 2008, Staff was concerned that with an early April filing there would not be enough time to get the January 1, 2009 coal contract increase into the case. Staff recommended that AmerenUE file in July so that the coal contract increase could be part of the true-up. Staff's recommendation would have removed the negative impacts of regulatory lag caused by the January 1, 2009 coal price increases. AmerenUE chose to ignore Staff's recommendation without giving an adequate explanation for why the Company would expose itself to the impact of such coal price increases. AmerenUE chose to file in April 2008 despite the Staff's recommendation. The timing of the case was AmerenUE's decision and the negative impacts are of AmerenUE's own making.

AmerenUE Should Not Be Penalized For Prudent Planning

Q. If the Commission does not grant AmerenUE a FAC because it has hedged its fuel costs, will the Commission be penalizing AmerenUE for its good performance as Mr. Lyons and Mr. Arora suggest? (Lyons Rebuttal p. 31, l. 13-15; Arora Rebuttal p. 2, l. 9-11)

A. No it would not. The Commission should require prudent and efficient performance from the electric utilities that it regulates regardless of whether or not the Commission allows the electric utility to have a FAC. To suggest, as AmerenUE witness Mr. Neff does in his rebuttal testimony (p.14, l. 1-4) that AmerenUE should consider reducing or eliminating its hedging program in order to make AmerenUE's short-term coal expense volatile could be considered a threat.

A. Should the granting of a FAC be a penalty or reward to electric utilities?

Q. Granting a FAC should not be a reward or a punishment. It is a tool given to the Commission by the Legislature to use at the Commission's discretion when it finds an electric utility meets the criteria of Section 386.266. I believe the Commission should deny an electric utility a FAC if it is not prudently using all of the resources available for it to reduce volatility and uncertainty. But prudent and efficient performance from an electric utility should not automatically result in the Commission granting an electric utility a FAC.

Q. In his rebuttal testimony, doesn't Mr. Neff say that it wouldn't be in the best interest of AmerenUE's customers for AmerenUE to purchase coal on a short-term basis only? (page 14, lines 5- 9)

A. Yes, he did. However, AmerenUE's November 3, 2008 update to Staff Data Request No. 0219 attached to this testimony as Schedule 1 has Staff greatly concerned. It shows ** ____ ____________________ ** However, the percent of Powder River Basin (PRB) coal that AmerenUE has hedged ** ______________________________________ ____ ______________________ ** Staff has requested information regarding this ** ______ ______________________________ ** but has yet to receive this information.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

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Schedule 1-1

HAS BEEN

DEEMED HIGHLY

CONFIDENTIAL IN

ITS ENTIRETY

Schedule 1-2

HAS BEEN

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