

Exhibit No.:
Issues: Fuel Adjustment Clause Second
Prudence Review
Witness: Jaime Haro
Sponsoring Party: Union Electric Company
Type of Exhibit: Direct Testimony
Case No.: E0-2012-0074
Date Testimony Prepared: April 16, 2012

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EO-2012-0074

DIRECT TESTIMONY

OF

JAIME HARO

ON

BEHALF OF

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

**St. Louis, Missouri
April, 2012**

DIRECT TESTIMONY

OF

JAIME HARO

CASE NO. EO-2010-0255

1 **Q. Please state your name and business address.**

2 A. My name is Jaime Haro. My business address is One Ameren Plaza,
3 1901 Chouteau Avenue, St. Louis, Missouri.

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

5 A. I am Director, Asset Management and Trading for Union Electric Company d/b/a
6 Ameren Missouri (“Ameren Missouri” or “Company”).

7 **Q. Please describe your educational background and employment experience.**

8 A. I received a Bachelor’s degree in Electro-mechanical Engineering from
9 Universidad Panamericana (Mexico City, Mexico) in 1995 and a Master of Business
10 Administration degree from Tulane University in 1998. From 1992 to 1998, I held several
11 positions with Grupo Bursatil Mexicano (“GBM”), a leading Mexican financial services and
12 brokerage firm, dealing with money markets, currency exchange, debt placement, and risk
13 management. In 1998, I joined AmerenEnergy Inc. (“AE”) and worked as an energy trader of
14 real time energy products before assuming an analytical support position in the long-term energy
15 market trading area of AE. From 1999 to 2004, I led the group within AE that provided
16 quantitative analysis for AE’s trading operations. In 2004, I became responsible for trading
17 operations, including managing the transition to trading AmerenUE’s power (with AE acting as
18 AmerenUE’s agent) in the Day 2 energy markets started by the Midwest Independent
19 Transmission System Operator, Inc. (“Midwest ISO”) on April 1, 2005. On December 31, 2006,

1 the Joint Dispatch Agreement between AmerenUE and AmerenCIPS terminated, and as a result,
2 effective January 1, 2007, AE's activities were solely related to AmerenUE's generation asset
3 management, including the trading and marketing operations. On January 1, 2008, AmerenUE
4 terminated the agency relationship with AE related to generation asset management, including
5 the trading and marketing operations. As a result, those AE employees formerly responsible for
6 these activities, including me, became employees of Ameren Missouri. At that time, I assumed
7 my current title, Director, Asset Management and Trading ("AM&T"). The responsibilities of
8 marketing and asset management were added to my existing duties. On January 1, 2011, in
9 conjunction with the dissolution of Ameren Energy Fuels and Services Company, I assumed
10 responsibility over gas supply for Ameren Missouri.

11 **Q. What are your responsibilities in your current position?**

12 A. As Director of AM&T, I manage four specific areas: (i) Real Time Operations,
13 (ii) Power Trading, (iii) Market Origination, and (iv) Gas Supply, providing guidance, oversight,
14 and coordination of activities in these areas. It is my responsibility to ensure a proper balance of
15 activities between these groups, such that their operations are mutually supportive and reflect
16 appropriate diversity within the Company's power sales portfolio. Further, I am responsible for
17 staffing, budgeting, goal setting, management reporting, and other administrative tasks
18 associated with these functions.

19 **Q. What is the role of each of these areas?**

20 A. Real Time Operations is responsible for interactions between the Midwest ISO
21 and Ameren Missouri's plant operators – including (but not limited to), maintenance of asset
22 operating limit data within the Midwest ISO systems, monitoring the Ameren Missouri assets,
23 and initiating a response to disturbance control standard events.

1 Trading is responsible for the optimization of the Ameren Missouri generation assets in
2 the marketplace, consistent with the Company's risk management policies, applicable laws and
3 regulations, and the associated administrative activities. Trading activities encompass
4 transactions with a duration of less than one year that are generally for fixed quantities, with a
5 wide variety of counterparties, including those typically characterized as "financial players" (in
6 that they do not own generation resources and are not load serving entities).

7 Market Origination is primarily responsible for the development of long-term
8 relationships with wholesale entities – primarily load serving entities, including municipalities,
9 electric cooperatives, and other electric utilities – intended to lead to wholesale transaction
10 opportunities (i.e., purchases and sales for resale). These activities include the identification of
11 and coordination of appropriate responses to long-term RFPs issued by various wholesale
12 entities. They also include the proactive solicitation and presentation of wholesale opportunities
13 to provide balance to Ameren Missouri's portfolio via physical sales of power to counterparties,
14 resulting in long-term revenue stability over periods of up to five years (or more with senior
15 management approval). The focus of Market Origination is on transactions which take the form
16 of full or partial requirements sales to other load serving entities. Such requirement sales may
17 include either fixed or variable amounts of energy, capacity, congestion management, and
18 market administration services.

19 Gas Supply is further split in two main groups: Generation and Local Distribution.
20 Generation is responsible for purchasing and hedging natural gas, transportation, and storage
21 necessary to run our Gas-fired generators, while Local Distribution schedules, hedges, and
22 purchases the required contracts to serve Ameren Missouri's gas customers.

23 **Q. What is the purpose of your testimony in this proceeding?**

1 A. The purpose of my testimony is to explain why Ameren Missouri's decision to
2 make long-term partial requirements sales¹ addressed in the *Staff Report* filed on October 28,
3 2011 (the "First Staff Report") was part of the sound, prudent management of the Company's
4 power sales portfolio, given the substantial change to Ameren Missouri's portfolio arising from
5 the devastating ice storm in January 2009 that drastically affected the load at Noranda
6 Aluminum, Inc.'s ("Noranda") Southeast Missouri aluminum smelter. I provided similar
7 testimony in the Company's first fuel adjustment clause ("FAC") prudence review case, Case
8 No. ER-2010-0255, which Ameren Missouri witness Lynn Barnes discusses in her direct
9 testimony. Because Noranda is Ameren Missouri's largest customer by far, the loss of this
10 substantial load for a long, but at the time indeterminate period created a significant disruption to
11 the Company's portfolio. In the wake of this catastrophic load loss, Ameren Missouri's decision
12 to enter into these contracts allowed it to maintain the historical balance of the portfolio.
13 Moreover, as Ameren Missouri witness Lynn Barnes testifies in her direct testimony, these
14 contracts kept Ameren Missouri and its customers in essentially the same position they would
15 have been in had no ice storm occurred.

16 **Q. You noted that entering into these requirements contracts was consistent**
17 **with maintaining the balance in the Company's sales portfolio. Please explain what you**
18 **mean.**

19 A. Prior to the severe loss of load at Noranda, the balance between (i) sales assigned
20 directly to serve load (consisting of the combination of sales to retail customers and
21 requirements sales), and (ii) off-system sales, had been approximately 78%/22%. The loss of

¹ These sales are reflected by contracts between Ameren Missouri and the American Electric Power Operating Companies ("AEP") and Wabash Valley Power Association, Inc. ("Wabash").

1 load at Noranda, the duration of which at the time was unknown, upset this balance (it became
2 approximately 74%/26%).)

3 **Q. Why was maintaining this balance important?**

4 A. In January 2009, when the ice storm occurred, we were in the midst of perhaps
5 the most severe financial crisis since the Great Depression. These conditions suggested strongly
6 that the Company should limit its exposure to potentially credit-weak counterparties in power
7 sales transactions, and should mitigate the risk that market power prices could drop even further
8 than they already had because of the financial crisis and the resulting severe downturn in the
9 economy. If the balance between sales backed by load and off-system sales remained skewed, as
10 it was when the Noranda load dropped, or if power contracts were entered into with credit-weak
11 counterparties (such as power traders without load-serving obligations), these risks would not be
12 mitigated. More spot off-system sales increased the exposure to the very real potential that
13 market power prices would drop even further, and more off-system sales under bilateral contracts
14 with counterparties who were not buying the power backed-up by load increased the credit
15 exposure additional business with such counterparties would create.

16 **Q. Please discuss the weak counterparty risk issue further.**

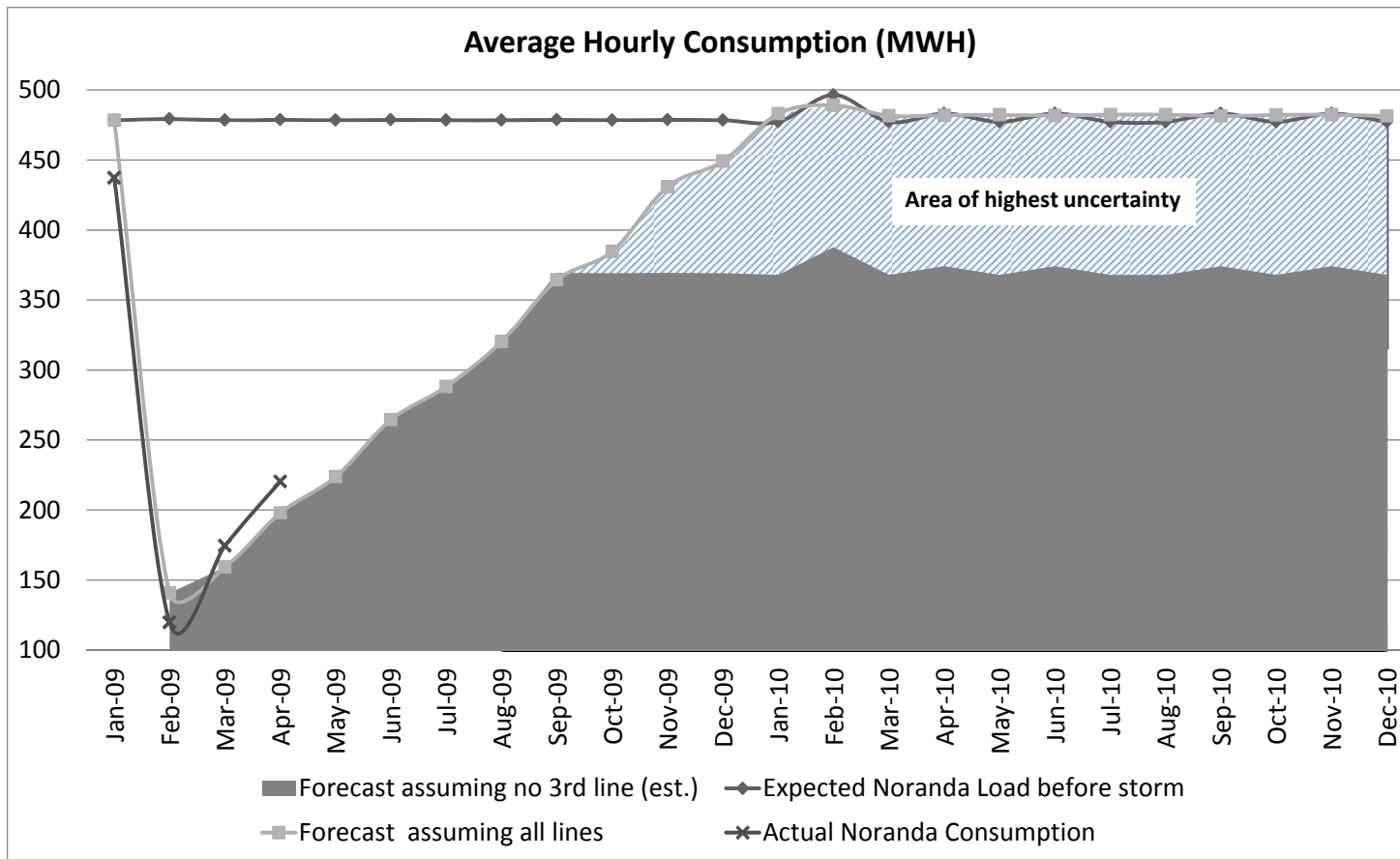
17 A. As alluded to above, at the time the megawatt-hours that otherwise would have
18 been sold to Noranda became available, the Company was concerned with increasing its
19 exposure to commercial bank counterparties, who are major traders in the power markets, given
20 the financial condition of those banks in the wake of the financial crisis. This in turn led the
21 Company to have greater concerns about ensuring revenues for excess generation in a market
22 that had become even more uncertain. The need to avoid more exposure to counterparties that
23 might have financial problems is illustrated by the fact that late in 2008 and during the first half

1 of 2009, there were several major players in the energy markets that were materially affected by
2 the financial crisis, including Constellation Energy, which was close to bankruptcy, and Lehman
3 Brothers, which had filed for bankruptcy. Consequently, as the person responsible for managing
4 the sales portfolio, it was my opinion that it was much more prudent for the Company to transact
5 with counterparties that had retail loads backing their ability to pay. AEP and Wabash were such
6 parties. By contracting with parties whose contracts were backed by end-use load and whose
7 financial condition seemed more stable, we would limit the Company's risk.

8 **Q. You mentioned several times that the balance of your portfolio had changed**
9 **as a result of the loss of the Noranda load. Did you know at the time exactly by how much?**

10 A. No. Immediately following the ice storm, Noranda's power usage dropped
11 dramatically, reducing load by approximately 460 megawatts ('MW'), but Noranda stated that it
12 expected to restore one of its three production lines almost immediately, and that it would need
13 to work on restoring its second and third production lines over time. As a result, we did not
14 know how quickly Noranda's second and third production lines could be restored, or even if
15 Noranda could continue operating in the long run. Even if Noranda could continue to operate at
16 some level, there appeared to be a particularly significant risk that Noranda might never be able
17 to restore the third and most damaged line, which would have permanently reduced Noranda's
18 load by approximately one-third. The graph below shows the expected Noranda load before the
19 storm (which was extremely stable given Noranda's very high load factor), the actual Noranda
20 load shortly after the storm when the first production line was restored (labeled "actual Noranda
21 consumption"), and two possible scenarios, one that assumed restoration of the second line (the
22 solid gray area), and one that assumed restoration of both the second and third production line

- 1 lines (the combination of the solid gray area and the cross-hatched area; the cross hatched area is
2 the incremental load from operation of the third production line).



- 3
4 **Q. Since you did not know how many megawatt-hours (“MWh”) would be lost over the**
5 **long term, did you sell the full 490 MW of Noranda’s load?**

- 6 A. No, we entered into two requirements sales contracts for different volumes, with
7 different load shapes and durations. First, we entered into a long-term partial requirements sale
8 with American Electric Power Service Corporation for 100 MW and a duration of 15 months for
9 a total of 1,096,800 MWh. Second, we entered into a long-term partial requirements sale with
10 Wabash Valley Power Association, Inc., to serve Citizens Electric load in Missouri. This sale
11 had an expected load factor of 76%, a volume of 150 MW with a duration of 18 months, and had
12 a minimum take of 1,500,000 MWh.

1 **Q. Where did the megawatt-hours you sold to AEP and Wabash come from?**

2 A. They were in effect the megawatt-hours that but for the ice storm would have
3 been sold to Noranda.

4 **Q. Does this conclude your direct testimony?**

5 A. Yes, it does.

