Exhibit No.:	
Issues:	Fuel Adjustment Clause
Witness:	Lena M. Mantle
Sponsoring Party:	MO PSC Staff
Type of Exhibit:	Supplemental Direct Testimony
Case No.:	ER-2010-0036
Date Testimony Prepared:	February 22, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SUPPLEMENTAL DIRECT TESTIMONY

OF

LENA M. MANTLE

UNION ELECTRIC COMPANY d/b/a AMERENUE

CASE NO. ER-2010-0036

Jefferson City, Missouri
February 2010

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE's Tariffs to Increase its Annual Revenues for Electric Service.	)))	Case No. ER-2010-0036

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 Supplemental Direct Testimony in question and answer form, consisting of 14 pages of Supplemental Direct Testimony to be presented in the above case, that the answers in the following Supplemental Direct 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 22nd day of February, 2010.

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

SUPPLEMENTAL DIRECT TESTIMONY

OF

LENA M. MANTLE

UNION ELECTRIC COMPANY d/b/a AMERENUE

CASE NO. ER-2010-0036

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 M. Mantle who contributed to the Missouri Public Service Commission Staff Revenue Requirement and Cost of Service Report (Staff Report) filed on December 18, 2009?

A. Yes, I am.

Q. What is the purpose of your supplemental direct testimony?

A. I present the Staff's response to the Commission's February 17, 2010 Order Directing The Parties To Submit Testimony Concerning The Appropriateness Of AmerenUE's Current Fuel Adjustment Clause ("FAC Testimony Order"). I explain to the Commission why Staff recommended in the Staff Report that the Commission approve, with modifications, the continuation of Union Electric Company, d/b/a AmerenUE's (AmerenUE's) Fuel Adjustment Clause ("FAC"). Also, in response to the Commission's request for information regarding the 95 percent pass through mechanism in AmerenUE's FAC, I provide information regarding the dollar amounts of the decrease and increase that was passed through to the customers and the dollar amount AmerenUE retained and paid for the two changes to Fuel and Purchased Power Adjustments ("FPAs") that have occurred since AmerenUE's FAC was implemented on March 1, 2009.

In addition I provide Staff's observations regarding actions of the utilities and other parties in rate cases in which the Commission has previously approved a FAC, not only for AmerenUE's current rate case but also for the rate cases of The Empire District Electric Company ("Empire") and KCP&L Greater Missouri Operations Company ("GMO") filed after the Commission first authorized them to implement a FAC.

Q. What is your experience with FACs?

A. I was one of the principle drafters of the Commission's FAC rules 4 CSR 240-3.161 Electric Utility Fuel and Purchased Power Cost Recovery Mechanisms Filing and Submission Requirements and 4 CSR 240-20.090 Electric Utility Fuel and Purchased Power Cost Recovery Mechanisms. I filed testimony regarding FACs in the following electric general rate cases: GMO rate case, Case No. ER-2007-0002; Empire rate case, Case No. ER-2008-0093; AmerenUE rate case, Case No. ER-2007-0002; and, AmerenUE rate case Case No. ER-2008-0318. I helped design the FAC tariff sheets used to implement the FACs for each of these utilities. In addition, I manage the Energy Department that includes the Commission's Resource Analysis section, which reviews FAC tariff sheet changes, adjustments, true-ups and prudency audits.

Q. What position did Staff take regarding a FAC in the Staff Report it filed in this case on December 18, 2009?

A. Staff witness John A. Rogers summed up Staff's position on page 105, lines 26-27 with the statement "The Staff recommends that the Commission approve, with modifications, the continuation of AmerenUE's Fuel Adjustment Clause ("FAC")." Mr.

Rogers then gives brief explanations of how AmerenUE's current FAC works, and the modifications and conditions Staff recommends the Commission approve regarding AmerenUE's current FAC.

Q. Did the Staff change its position from the position it took in AmerenUE's last general rate increase case, Case No. ER-2008-0318?

A. Yes it did. In Case No. ER-2008-0318, on page 59 of Staff's Cost of Service Report, Staff recommended that the Commission not authorize AmerenUE to use a FAC.

Q. Why did Staff recommend the Commission not authorize AmerenUE to use a FAC in Case No. ER-2008-0318?

A. The Staff made this recommendation in Case No. ER-2008-0318 for the following reasons:

1. In the first case in which AmerenUE requested a FAC, Case No. ER-2007-0002, the Commission did not grant AmerenUE a FAC. It was Staff's position that the circumstances regarding AmerenUE's fuel and purchased power costs had not changed since that case, and
2. AmerenUE did not meet some of the criteria for the Commission to exercise its authority to establish an FAC as set out in Section 386.266, Commission rules 4 CSR 240-3.161 and 4 CSR 240-20.090, and prior Commission Orders, including the Commission's Report And Order in the first rate case in which AmerenUE requested a FAC, Case No. ER-2007-0002.

Q. What were the circumstances regarding AmerenUE's fuel and purchased power that Staff cited for opposing the Commission authorizing AmerenUE to use a FAC in Case No. ER-2008-0318?

A. In the Staff Cost of Service Report in Case No. ER-2008-0318, Staff explained that:

1) Fluctuations in natural gas and purchased power prices did not have a material impact on AmerenUE's fuel and purchased power expense since AmerenUE only used a small amount of natural gas and purchased power to meet its net system input (pages 60 - 61);

2) While it was expected that AmerenUE's costs of coal and uranium would increase in the future, the timings and the amounts of the increases were predictable;

3) AmerenUE would be asking for another rate increase in the near future so that the January 1, 2009 increase in coal costs would soon be captured in AmerenUE's rates (pages 60 – 63);

4) AmerenUE had some control over the prices that it pays for coal, because of the large quantities of fuel it purchases (pages 63 – 64); and

5) AmerenUE made significant off-system sales (page 64).

Q. Have any of these circumstances changed between AmerenUE's implementation of its FAC on March 1, 2009 and the start of this rate case on July 24, 2009?

A. No, they have not. AmerenUE's use of natural gas and purchased power to meet its net system load is still low. Natural gas and purchased power prices are not as material to AmerenUE's total fuel costs to meet its net system load requirements. AmerenUE's coal and nuclear fuel costs have increased, but have remained predictable, both in timing and amount. AmerenUE's coal costs did increase, but most of the increase occurred on January 1, 2010. Callaway was not refueled during the test year ending March 31, 2009 as trued up through January 31, 2010 ordered in this case so AmerenUE's nuclear prices have not yet increased. AmerenUE filed this rate case just five months after rates were implemented in its last rate case, Case No. ER-2008-0318. AmerenUE still purchases large amounts of fuel giving it some control over fuel prices and AmerenUE is still making significant off-system sales.

The only notable difference is that market prices for off-system sales are significantly lower in this case (ER-2010-0036) than they were in AmerenUE's last rate case (ER-2008-0318). While these lower market prices reduced the total fuel and purchased power cost of AmerenUE to serve its net system load, the largest impact was on AmerenUE's off-system sales margins. These off-system sales margins are off-sets against all of AmerenUE's fuel and purchased power costs, not just those incurred to serve its net system input. Since AmerenUE's off-system sales margins as filed in this rate case were much lower than they were during the AmerenUE's last case, between these cases, AmerenUE's revenue requirement increased significantly due to AmerenUE's fuel and purchased power costs, i.e., the decrease in AmerenUE's off-system sales revenue margins results in an increase in AmerenUE's revenue requirement.

Q. Why did Staff not propose discontinuing AmerenUE's FAC in this case?

A. There are two reasons. First and foremost, Staff had set out its position in Case No. ER-2008-0318 and the Commission, given the information provided by Staff and the other parties to the case, authorized AmerenUE to implement a FAC. When Staff was developing its positions in this case, circumstances regarding AmerenUE's fuel and purchased power costs had not changed significantly, and Staff had not received any indication from the Commission that the Commission desired to revisit the 95% / 5% incentive mechanism in AmerenUE's FAC or whether AmerenUE should even have a FAC. Therefore, given the recent Commission Report And Order in Case No. ER-2008-0318, Staff decided that in this case it would follow the Commission's Report And Order in Case No. ER-2008-0318 and focus on modifications to improve AmerenUE's current FAC.

Second, but not insignificant, since little time had passed after AmerenUE's FAC was implemented, Staff did not have enough "data" to meaningfully analyze the effectiveness of AmerenUE's FAC in delivering the purported benefits AmerenUE asserted a FAC would provide. Given that the Commission had just authorized AmerenUE to implement a FAC, Staff chose to proceed cautiously.

Q. Has Staff changed its position since it filed its Staff Report on December 18, 2009?

A. No, it has not. When developing the procedural schedule in this case the parties agreed that the non-AmerenUE parties would raise their substantive issues regarding AmerenUE's FAC in their December 18, 2009 direct case revenue requirement filings. Staff remains committed to that agreement and its filed position on AmerenUE's FAC in this case. Staff focused on the design, implementation, monitoring and enforcement of AmerenUE's FAC in its December 18, 2009 Staff Report. If the Commission determines that AmerenUE's FAC should continue, Staff recommends that it approve Staff's modifications to AmerenUE's FAC found in its Staff Report and in the Staff's Class Cost-of-Service and Rate Design Report filed on January 6, 2010.

However, since the Commission, in the its FAC Testimony Order, requested information regarding both the appropriateness of the continuation of AmerenUE's FAC and the 95% pass through mechanism of that FAC, Staff is presenting information it believes the Commission is seeking with its FAC Testimony Order.

Q. What information can you give the Commission regarding the 95 percent sharing mechanism of AmerenUE's FAC?

A. There have been two adjustments to AmerenUE's FPA since AmerenUE's FAC was implemented. Based on AmerenUE's filing in Case No. ER-2010-0044, at the end of its first accumulation period March 1, 2009 through May 31, 2009 the base fuel costs during that period were $57,146,229 and AmerenUE's actual fuel costs were $43,875,102, which was $13,271,127 below the base fuel costs. With the 95% pass through mechanism, AmerenUE gets 5% of the difference ($663,556) and the other 95% ($12,607,571) is returned to AmerenUE's customers during the first recovery period of the August 2009 through July 2010 billing months, subject to true-up and prudence review.

Based on AmerenUE's filings in Case No. ER-2010-0165, AmerenUE's actual fuel costs for the second accumulation period of June 1, 2009 through September 30, 2009 were $152,992,169, $19,806,975 above the base fuel cost of $133,185,194 for that period. During that second accumulation period, AmerenUE's 5% was $990,349. The remaining $18,816,626 will be collected from AmerenUE's customers during the second recovery period of the February 2010 through January 2011 billing months, subject to true up and prudence review.

Overall, the total difference in fuel costs for the two accumulation periods (March 1, 2009 through September 30, 2009) was a positive adjustment of $6,535,848 of which AmerenUE's 5% portion was $326,793 and the 95% to be recovered is $6,209,055.

	Actual fuel cost	Base fuel cost	Difference	AmerenUE's 5%	Customers' 95%
AP 1	$43,875,102	$57,146,229	($13,271,127)	($663,556)	($12,607,571)
AP 2	$152,992,169	$133,185,194	$19,806,975	$990,349	$18,816,626
Total	$196,867,271	$190,331,423	$6,535,848	$326,793	$6,209,055

Q. Staff recommends net base fuel costs in this case considerably higher than the current net base fuel costs. How do you reconcile this proposed significant increase to net base fuel costs to the relative small cumulative CAF adjustment for these two accumulation periods?

A. The cost of coal used in the two accumulation periods described above only includes the January 1, 2009 price increase. Coal prices change annually on January 1. The fuel and purchased power costs estimated by the fuel simulation models in this case include the increases in coal costs that occurred on January 1, 2009 and on January 1, 2010. Since AmerenUE generates about two-thirds of its electricity by coal plants, the coal fuel costs for the trued-up test year in this rate case are higher than they were in the accumulation periods.

Natural gas prices have decreased and, while that means a lower cost for electricity generated from natural gas-fired generation, it also means that off-system sales prices are lower, since off-system sales market prices are significantly influenced by the price of generation from natural gas. The fuel simulation models used in the rate case still show a considerable amount of off-system sales for AmerenUE but since it costs more to generate the electricity (due to the higher coal price) and the market price is lower, the off-system sales margin is smaller than it was in the last rate case.

AmerenUE's third accumulation period ended January 31, 2010. It will include one month (January 2010) of increased coal costs. Staff anticipates AmerenUE will file for a change to its FPA the last week of March 2010. Based on the monthly reports for the first three months of the accumulation period submitted in compliance with 4 CSR 240-3.161, Staff expects the next adjustment to be a positive adjustment.

Q. Will AmerenUE need a FAC to timely include the increase in its coal costs that are scheduled for January 1, 2011?

A. As stated in AmerenUE's direct testimony, AmerenUE is currently installing Wet Flue Gas Desulfurization (WFGD) emission control equipment for sulfur dioxide (SO2) on its Sioux plants. Staff expects that AmerenUE will file another rate case soon after this rate case so that it can begin recovery of its capital costs of approximately $500 million for this equipment. AmerenUE's January 1, 2011 increase in coal costs will be a part of that rate case. While Staff anticipates there will be some lag between when AmerenUE begins paying the higher coal costs and the implementation of new rates that include consideration of the higher fuel costs, there is a possibility that these new AmerenUE rates will go into effect before AmerenUE would begin recovering the January 1, 2011 increased coal costs through its FAC. The difference is that without a FAC, the general rate case rates are not set to recover the higher cost between the time the coal costs increase and when the new general rate case rates go into effect. With a FAC, AmerenUE would recover a portion (with the current FAC that portion is 95%) of the increased fuel costs, along with interest on the increase, starting five to eight months after the fuel was used.

Q. You discussed how recovery of increased coal costs would occur with and without a FAC. Are there any other increases in AmerenUE's fuel costs that Staff is aware of at this time?

A. AmerenUE has scheduled an outage at the Callaway Nuclear Plant for late spring of 2010 which is beyond the agreed upon test year and true-up date. Without a FAC, the difference in the time between when AmerenUE could begin recovering the increased cost of fuel would be greater than it is with the increased cost of coal since AmerenUE would be incurring the increased nuclear fuel cost (May 2010) sooner than it would the increased coal costs (January 1, 2011).

Q. Does Staff have any observations about the 95% sharing mechanism that it would share with the Commission?

A. Yes it does. Since the Commission first allowed Aquila, Inc. (Aquila) a FAC in Case No. ER-2007-0004 Staff has noticed a change in the general rate case filings of utilities after they are allowed a FAC. It seems that a 95 percent sharing mechanism results in utilities not applying the same degree of accuracy when providing a good estimate of the fuel and purchased power expenses in their rate cases as they did before the Commission authorized a FAC for them.

Great Plains Energy, Inc. acquired Aquila after Aquila was granted a FAC and changed its name to KCP&L Greater Missouri Operations Company (GMO). The first rate increase case for GMO was the first rate case (Case No. ER-2009-0090) in which GMO requested a continuation of the FAC granted in Case No. ER-2007-0004. In the minimum filing requirements for that case, the amount that GMO stated that it was requesting did not include any increase for fuel costs. However, GMO was requesting that its base rates (non-FAC rates) include an increased amount for increased fuel cost. As GMO explained it to Staff later, GMO believed that it did not need to include the increase in cost for fuel in its statements because GMO would have recovered 95% of the fuel costs without filing the general rate case, i.e., through its FAC. By only stating its request to recover non-fuel increases, it appeared that GMO was asking for a much smaller increase in rates than it was actually seeking. To Staff, it appeared that accuracy in calculating the increase in fuel costs was less relevant since GMO believed that it would get 95% of its increased fuel costs through its FAC.

Q. Is GMO the only utility that has shown this view?

A. No, Staff has seen this same viewpoint by the utilities in rate case filings subsequent to the granting of FACs for Empire, and to a lesser extent, AmerenUE.

Q. Why do you believe that Empire has this same viewpoint?

A. Empire filed a rate case on October 29, 2009. Empire did not file to change the net base fuel costs in its FAC tariff sheets. Empire witness Todd Tarter stated on page 4, lines 2-3 of his direct testimony that the actual base energy cost on a $/MWh basis was very close to the average base energy costs in its FAC tariff. Empire did not use its fuel and purchased power model to estimate normalized, annualized fuel costs for its rate case. If Empire did not have a FAC, it presumably would have spent considerable time and effort to accurately estimate its fuel and purchased power costs for its rate case. Staff believes that the 95% sharing mechanism significantly contributed to Empire's decision to not update its fuel and purchased power costs for its rate case.

Q. You stated Staff has seen the same viewpoint expressed to a lesser extent by AmerenUE. Would you elaborate?

A. Yes. AmerenUE did estimate its fuel and purchased power costs and use its estimates in this case. In past cases, Staff and other parties had considerable discussions regarding the utilities appropriate fuel and purchased power costs to include in the case.

In addition, because of the large amount of off-system sales of AmerenUE, the amount of off-system sales margin included in rates in the past has been scrutinized, because if that amount was set "too low" then the shareholders could receive a windfall. If it was set "too high," earnings would suffer. This type of discussion and analysis by the parties refines the fuel and purchased power costs and off-system sales margin used in the case, much like steel-on-steel sharpens a blade. However, in this case, there has been very little of this type of discussion. Staff believes that is because AmerenUE has a FAC with a 95% sharing mechanism.

Q. Does this type of scrutiny now take place in the true-up of a FAC?

A. It does not take place in the true-up process. The purpose of the true-up is to compare the amount that the utility should recover to the amount that it actually billed. The FPA for the next accumulation period then includes this difference.

Q. Should this type of scrutiny take place in the FAC prudency review?

A. It could. Staff has only filed one FAC prudency review and that review was for GMO. Staff will be filing the results of its first prudency review of fuel and purchased power costs of Empire's FAC later this month. Neither of these utilities makes large sales in the off-system sales market like AmerenUE does.

Staff intends to begin its first prudence review of AmerenUE's FAC soon. The resulting report should be filed in late August 2010. To achieve the type of scrutiny that fuel and purchased power costs receive in a rate case, several of the parties from the rate case would need to review the results and provide their comments. Staff would welcome the scrutiny of this review from the many parties to AmerenUE's rate case. Without such review, the fuel and purchased power costs of the accumulation period will not undergo the scrutiny that fuel and purchased power costs and off-system sales margins received in rate cases prior to the Commission authorizing AmerenUE a FAC.

Q. Has Staff observed other changes to the rate case process for electric utilities since the Commission has approved FACs for the electric utilities?

A. Yes, there have been other changes. Given the limited resources and time, it is only logical that with a FAC with a 95% sharing mechanism, the parties focus on the non-fuel increases. In addition, the parties can "game" the fuel/non-fuel split of any rate increase request. If the dollar amount attributed to fuel is below the actual fuel costs, then the customers end up only paying 95% of the difference between the actual fuel costs and the rate case fuel costs and the customers pay the increase at a much later time. On the other hand, if fuel cost is set above actual fuel costs, then the utility "refunds" only 95% at a later time period.

Q. Does Staff have a recommendation regarding the sharing mechanism?

A. It is very difficult to state what the appropriate sharing mechanism should be. In Empire's last rate case, Case No. ER-2008-0093, Staff, in the Staff Cost of Service Report filed on February 22, 2008, explained to the Commission on pages 61 through 62, that Empire had absorbed approximately $85.5 million of increased fuel costs for the time period of 2002 through 2006. That report includes Table LM2 on page 62 that showed how much Empire would have absorbed at various levels of percentage sharing over the 2002 through 2006 time period if a FAC had been allowed. In that report Staff recommended that the Commission allow a sharing mechanism between 60% to 80%. Specifically Staff recommended a 70% recovery of fuel costs as a point where, under a FAC, ratepayers take on a significant portion of the fuel and purchased power risk, but Empire, by keeping 30% of the fuel costs it saves, had an incentive to control and reduce fuel and purchased power costs. The Commission chose the 95% sharing mechanism for Empire's FAC.

In this testimony, I have provided information for the Commission regarding how the 95 percent sharing mechanism impacted the amount kept/paid by AmerenUE and what it meant to AmerenUE's customers. I have also shared the experience of Staff in dealing with all of the utilities in Missouri that have a FAC.

Q. Have there been problems with the electric utilities submitting the monthly and quarterly information required by 4 CSR 240-3.161?

A. As with the start of any new procedure, there have been some misunderstandings but the utilities have worked with Staff and all of the utilities, are submitting the required information on a timely basis through the Commission's Electronic Filing and Information System (EFIS). AmerenUE, in particular, has worked with Staff to make sure that Staff received the monthly and quarterly submission requirements of 4 CSR 240-3.161 in a form and manner that Staff could readily utilize.

Q. Is Staff opposed to electric utilities having FACs?

A. In the past, for different utilities in different circumstances, Staff has both recommended the Commission allow a utility to have a FAC and in others it has recommended the Commission not allow a utility to have a FAC. Staff believes that a FAC is a tool, if used appropriately, that may benefit both utility customers and utility shareholders. This Commission, Missouri electric utilities, Staff, Public Counsel and other parties have had limited experience over the last two and half years with FACs and Staff expects, as time passes, it will become more evident when a FAC is appropriate for a given utility, and if a FAC is truly beneficial, what the design of the FAC should be.

Q. Does this conclude your supplemental direct testimony?

A. Yes, it does.