Exhibit No.:	
Issue:	
Witness:	Billie S. LaConte
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Missouri Energy Group
Case No.:	EA-2005-0180
Date Testimony Prepared:	January 31, 2005

AmerenUE

Service Area Extension
Case No. EA-2005-0180

Before the
Missouri Public Service Commission

Rebuttal Testimony of Billie S. LaConte

on Behalf of the
Missouri Energy Group

Project 041346
January, 2005

NP

AmerenUE

Service Area Extension
Case No. EA-2005-0180

Affidavit of Billie S. LaConte

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

Billie S. LaConte, being of lawful age and duly affirmed, states the following:

1. My name is Billie S. LaConte. I am a consultant in the field of public utility economics and regulation and a member of Drazen Consulting Group, Inc.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony consisting of Pages 1 through 15 and Appendix A filed on behalf of the Missouri Energy Group.

3. I have reviewed the attached Rebuttal Testimony and hereby affirm that my testimony is true and correct to the best of my knowledge and belief.

Billie S. LaConte

Billie S. LaConte

Sheryl M. Fenelon

Duly affirmed before me this 31st day of January, 2005.

Notary Public

My commission expires on December 29, 2006.

Notary Public
Notary Seal
State of Missouri

SHERYL M. FENELON
St. Louis County
My Commission Expires
December 29, 2006

AmerenUE

Service Area Extension
Case No. EA-2005-0180

<u>Rebuttal Testimony of Billie S. LaConte</u>

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Billie S. LaConte, 8000 Maryland Avenue, Suite 1210, St. Louis, Missouri 63105-3918.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility economics and regulation and a member of Drazen Consulting Group, Inc.

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A These are given in Appendix A.

Q ON WHOSE BEHALF ARE YOU SUBMITTING THIS TESTIMONY?

A I am presenting it on behalf of the Missouri Energy Group (MEG). Members of the MEG served by the Union Electric Company d/b/a AmerenUE ("AmerenUE") are: Barnes-Jewish Hospital, Buzzi Unicem USA, Inc., Emerson Electric Company, Holcim US, Inc., SSM Health Care and St. John's Mercy Health Care.

Q WHAT IS AMERENUE REQUESTING FROM THE COMMISSION?

A AmerenUE is asking the Commission to approve a certificate for public convenience and necessity that would allow the Company to extend its service territory to a section of New Madrid County, Missouri, in order to serve Noranda Aluminum, Inc. (Noranda) as a regulated customer.

Q WHAT IS THE REASON GIVEN FOR THE REQUEST?

A The Company states:

> *Noranda has requested and needs long term public utility electric service at just and reasonable rates, AmerenUE is in the business of and is capable of providing such service, such service is essential to Noranda's continued viability, and Noranda's continued viability is critical to the economy of Southeast Missouri and the state of Missouri.* (Application, Paragraph 15)

Q PLEASE EXPLAIN MEG'S INTEREST IN THIS CASE.

A The MEG represents some of AmerenUE's major hospital and industrial customers that are located in AmerenUE's existing service territory, primarily in the St. Louis area. The MEG is concerned about increases in costs or a reduction in supply, thereby affecting reliability of service, if AmerenUE adds Noranda as a regulated customer. Having AmerenUE as a low-cost source of power is certainly good for Noranda and the economy of Southeast Missouri and adding the Noranda load may be good for AmerenUE, but the MEG wants to ensure that serving Noranda will be in the public interest and not to the detriment of AmerenUE's existing customers.

Q HAS THE MEG BEEN ABLE TO DETERMINE THE IMPACT OF ADDING THE NORANDA LOAD TO AMERENUE'S CUSTOMERS?

A No, because there are other related issues that make it difficult to assess the exact impact of the Noranda load on AmerenUE's customers. Although the Company has provided analyses related to the addition of the Noranda load and how it affects AmerenUE's average costs, the resolution of these other issues have a bearing on the impact of increasing the service territory and adding Noranda as a regulated customer of AmerenUE. This is the same concern as noted by the Commission in the Metro East transfer case:

> *The Commission agrees that the transactions proposed by Ameren are extremely complex and potentially detrimental to the Missouri public.* (Order Establishing Procedural Schedule, Case No. EO-2004-0108, December 2, 2003)

Q WHAT ARE THE OTHER ISSUES RELATED TO THE NORANDA PROCEEDING?

A The related issues include:

? Whether AmerenUE should serve Noranda as a non-regulated contract customer or as a regulated customer ("jurisdictional issue");

? Transfer of the Metro East load to AmerenCIPS ("Metro East Transfer");

? Transferring ownership of the Kinmundy and Pickneyville combustion turbine generators (550 MW) ($257 million) from Ameren Energy Generating Company to AmerenUE ("CTG transfer");

? Amendments to the Joint Dispatch Agreement ("JDA amendments"); and

? AmerenUE's commitment to develop demand-response/interruptible rates.

Q HAS THE MEG ANALYZED THESE ISSUES AS THEY RELATE TO THE NORANDA PROCEEDING?

A No.

Q PLEASE EXPLAIN.

A The MEG and other intervenors have requested information from AmerenUE related to these issues which AmerenUE refused to answer, stating that the information sought is not relevant or material to AmerenUE's application to extend its service territory. As an example, see AmerenUE's response to OPC's third data requests No. 527:

> ***No. 527:***
> *At line 6 on page 14 of his direct testimony, Richard Voytas stated that 'resource planning analysis do not, however, indicate the effect of choosing one option or another on future customer rates.' Please provide a copy of all documents created by or for AmerenUE or its affiliates that contain descriptions or analysis of the possible impact that adding the Noranda load may have on the future rates of some or all of AmerenUE's native load customers. If no such documents exist, please provide a statement to that effect.*
> ***Response:***
> *Objection. This Data Request seeks information that is not relevant or material to AmerenUE's application to extend its service territory or to the legal standard that applies to AmerenUE's application, and is also not reasonably calculated to lead to the discovery of admissible evidence.*

It has not been possible to properly analyze the costs and implications of all these issues combined, yet such an analysis is required to determine the true impact on AmerenUE's existing customers of adding the Noranda load.

Q PLEASE DESCRIBE THE REGULATED VERSUS NON-REGULATED "JURISDICTION ISSUE".

A The Commission has recognized the fact that AmerenUE has the ability to serve Noranda with a non-regulated rate under Section 91.026 (*Order Directing Filing*, Case No. EA-2005-0180, January 4, 2005). Indeed, the purpose of the legislation was to allow a customer like Noranda (that is, a large aluminum plant) to buy power from a supplier that is not certificated to serve the area in which that plant is located. If the sale for Noranda were "non-jurisdictional," that is, not subject to regulation by this Commission, Missouri retail customers would retain the benefit of all the lowest-cost power and receive the benefit, if any, of off-system sales, of which Noranda would be one. To the extent that off-system sales were made at a price below incremental cost, Missouri customers would be shielded from any such loss. As a regulated customer, it is not clear that the same benefit would apply.

Q WHY, THEN, IS THERE AN ISSUE HERE?

A AmerenUE has said that it is not willing to serve Noranda under a non-regulated contract because of costs it will incur from the Midwest Independent Transmission System Operator (MISO) (*UE's Response to the Commission's January 4, 2005 Order Directing Filing and Memorandum of Law*, Page 2). However, AmerenUE has not provided any analysis or figures for the MISO costs. And, if the Company were to incur MISO-related costs due to the Noranda load, the contract that the Company has with Noranda requires Noranda to pay these costs, not AmerenUE (Nelson Testimony, Page 10, Lines 14-19). Thus, we cannot evaluate the magnitude and significance of this claim.

Q PLEASE DESCRIBE THE METRO EAST TRANSFER.

A AmerenUE wants to transfer its Illinois service area to AmerenCIPS. It filed an application on August 25, 2003, requesting approval for the transfer.

Q WHAT IS THE EFFECT OF THE METRO EAST TRANSFER?

A By transferring the AmerenUE Illinois load to AmerenCIPS, the AmerenUE generation capacity that is currently deemed to serve Illinois load becomes available to serve Missouri load. In effect, from the standpoint of Missouri customers, the transfer of the Illinois load amounts to acquiring extra generation that is deemed to serve Missouri customers. Given that the Illinois load is approximately 510 MW, with the target reserve margin this is equivalent to increasing capacity for Missouri customers by 597 MW.

Q WHAT REASON DID AMERENUE GIVE FOR THE METRO EAST TRANSFER?

A It said that this would provide capacity to meet Missouri's growing retail load:

> *The primary purpose for the transfer is to effectuate an electric resource plan in a manner beneficial to Missouri customers.* ***The transfer is the least cost alternative available to supply AmerenUE's long-term capacity and energy needs****, as more fully explained in the direct testimony of Mr. Richard A. Voytas.* (Nelson Testimony in EO-2004-0108, Page 11, emphasis added)
>
> *1. The transfer of AmerenUE's Metro East service territory in Illinois to AmerenCIPS would include the transfer of 510 megawatts ("MW") of firm load. This transfer would provide AmerenUE's Missouri customers with low cost capacity and energy for many years. The transfer results in a 597 MW increase in existing AmerenUE capacity available to serve Missouri customers (**____________________**).* ***This allows the current Missouri retail customers of AmerenUE to achieve greater benefits from an installed generating base*** *currently valued at approximately $374/kW, rather than constructing additional gas-fired capacity at a current cost of at least $471/kW. A 510 MW peak demand*

> *reduction would defer the construction of 597 MW of new generation at a cost of $281 million. The avoided cost of $97/kW ($471/kW - $374/kW) for 597 MW, at a 13.22% carrying cost, results in a savings of $7.7 million per year in fixed costs.*
>
> *2. With the 510 MW demand on AmerenUE's system transferred to AmerenCIPS,* ***regulated Missouri customers will enjoy (1) lower average production costs and (2) fewer wholesale energy purchases during periods of peak demand****.* (Voytas Testimony in EO-2004-0108, Page 2, emphasis added)

The other effect is that AmerenUE would no longer be an Illinois utility, subject to the jurisdiction of the Illinois Commerce Commission ("Illinois CC"). The advantage of this, as discussed below, is that it facilitates AmerenUE's acquisition of combustion turbine generators.

Q WHAT IS THE STATUS OF THE METRO EAST TRANSFER?

A AmerenUE received approval from the Commission (Report and Order, October 6, 2004, Docket No. EO-2004-0108) to complete the transfer, subject to certain conditions. On October 15, 2004, AmerenUE filed an application for Rehearing in the Metro East Transfer case. In the application, AmerenUE claims that the Commission's order imposes unlawful and unnecessary conditions. These conditions include amendments to the JDA (discussed below) and a protective mechanism that holds AmerenUE responsible for the 6 percent of any pre-closing liabilities or environmental costs that are currently the responsibility of Metro East ratepayers. On December 30, 2004, the Commission issued an order granting rehearing.

Q HOW DOES THE METRO EAST TRANSFER AFFECT THE NORANDA PROCEEDING?

A AmerenUE says that if it does not receive approval for the Metro East Transfer, it will not have sufficient capacity to serve Noranda. In its application for the Noranda proceeding, AmerenUE stated "AmerenUE's commitment to being Noranda's electric supplier is conditioned upon AmerenUE completing the transfer of the Metro East service area to AmerenCIPS by June 1, 2005" (AmerenUE Testimony, Craig Nelson, Page 6, Lines 1–3).

Q WHAT OTHER CONCERNS DOES THE MEG HAVE REGARDING THE METRO EAST TRANSFER?

A AmerenUE claims that Missouri ratepayers will benefit from the Metro East Transfer and that transferring 510 MW of the Metro East load will free up low-cost, depreciated generation for Missouri ratepayers. In the short term, Missouri ratepayers will be paying for the freed-up generation (an additional 6 percent, or 98 percent of total generation costs) without actually needing the additional capacity. However, due to the Stipulation and Agreement from EC-2002-1, rates are frozen until June 30, 2006, so ratepayers will not immediately see an increase in rates. Over the long term, though, Missouri ratepayers will benefit from the additional low-cost power. Now, AmerenUE is proposing to add the Noranda load (470 MW) stating that it will benefit AmerenUE and the state of Missouri. The question that has not been answered is: if Missouri ratepayers will benefit from the additional generation freed up by the Metro East Transfer, where will that benefit go if the Noranda load immediately uses up that additional generation?

Q PLEASE DESCRIBE THE CTG TRANSFER.

A In early 2003, AmerenUE requested approval to acquire ownership of two combustion turbine generators (CTGs) from its non-regulated affiliate, Ameren Energy Generating Company (AEG). These were the Kinmundy and Pickneyville plants, located in Illinois. Approval was required from both the Federal Energy Regulatory Commission (FERC) and the Illinois CC. The total capacity to be transferred is 548 MW. AmerenUE has stated that the capacity will be transferred at book value, about $257 million. The reason for the transfer given by AmerenUE was that it requires additional capacity to serve its load.

> *Q Given the resource sharing provisions of the JDA, why is it necessary for AmerenUE to acquire the Kinmundy and Pinckneyville units from AEG?*
>
> *A Section 6.04 of the JDA states that each party is responsible for maintaining an adequate planning reserve margin. The transfer of AEG's units will allow AmerenUE to comply with this requirement. Without the transfer of these assets, other resource acquisitions would be required for AmerenUE to be in compliance with this section of the JDA.* (Nelson Testimony in EC03-53, Page 8)
>
> *Through its resource planning process, AmerenUE has determined that in order to maintain a **_______** reserve margin in 2003 as required by the JDA and consistent with MAIN reliability council requirements for the summer peak period commencing June 1, 2003, AmerenUE needed additional capacity resources of 543 MW. This need is projected to increase in later years . . ..* (Nelson Testimony in EC03-53, Pages 14-15)

Q WAS THE CTG TRANSFER APPROVED BY BOTH THE FERC AND THE ILLINOIS CC?

A FERC, yes; Illinois, no. In this connection, note that the Illinois Commerce Commission staff opposed the transfer.

Q HOW DOES THE CTG TRANSFER AFFECT THE NORANDA PROCEEDING?

A UE said that it needs the CTG capacity in order to serve the Noranda load.

> *AmerenUE does not have sufficient capacity to serve Noranda without first completing both the Metro East and Kinmundy and Pickneyville CTG transfers.* (Nelson Testimony in EA-2005-0180, Page 6, Lines 19–21).

However, AmerenUE needs approval of the Metro East Transfer before it can acquire the Kinmundy/Pickneyville capacity. By transferring the Metro East load, AmerenUE will become a Missouri-only utility and will not need the approval of the Illinois CC to transfer the capacity. The Illinois CC staff is opposed to the CTG transfer. AmerenUE stated:

> *Opposition from the ICC Staff required AmerenUE to withdraw its application and instead pursue the transfer of its Illinois service territory (i.e. the Metro East transfer) to its affiliate Central Illinois Public Service Company d/b/a AmerenCIPS.*
>
> *The Metro East transfer would result in AmerenUE no longer being an Illinois utility. This would moot the opposition from the ICC Staff who would then be indifferent to a generation infusion into a non-Illinois electric utility.* (Case No. EO-2004-0108, *Union Electric Company's d/b/a AmerenUE's Response to the Commission's December 30, 2004 Order Directing Filing*, Page 12)

Q DOES THIS RAISE ANY QUESTIONS?

A Yes, it does. AmerenUE first proposed the Metro East Transfer, at least in concept, several years ago, long before either the Noranda sale or the CTG transfer were being contemplated. The Metro East Transfer was suggested as a way to make additional capacity available for Missouri customers. It would cover about two or three years' worth of Missouri retail load growth. Similarly, the need for the CTG transfer was stated to be the growing loads of Missouri retail customers. Thus, there is a concern that the two measures for additional supply that were stated to be necessary to meet load growth of Missouri retail customers will no longer be adequate for that need with the addition of the substantial Noranda load. Or, to turn the question around: if AmerenUE can accommodate the Noranda load with these new generation supplies, it is not clear why both of them were needed prior to Noranda.

Q PLEASE DESCRIBE THE JDA ISSUE.

A As part of the conditions that the Commission set out in its Order approving the Metro East Transfer, AmerenUE was required to amend the JDA as follows:

1. Distribute profits from off-system sales on the basis of generation rather than load; and
2. Price inter-company energy transfers at market price rather than at incremental cost.

UE agreed to the first amendment but objected to the second amendment. The Commission found that absent the second amendment, the Metro East Transfer would be detrimental to Missouri ratepayers and would "permit the Ameren group to shift costs to Missouri ratepayers for the benefit of Ameren's unregulated activities" (Docket No. EO-2004-0108, Report and Order, Page 52).

Q HOW DO THE JDA AMENDMENTS AFFECT THE NORANDA PROCEEDING?

A The JDA amendments that the Commission required in its initial Metro East Transfer order protected Missouri ratepayers from any undue costs. However, UE has stated that it will not be able to serve Noranda unless it receives AmerenUE's "preferred" approval of the Metro East Transfer. Specifically, AmerenUE said:

> *AmerenUE's commitment to being Noranda's electric supplier is conditioned upon AmerenUE completing the transfer of the Metro East*

> *service area to AmerenCIPS by June 1, 2005, and completing the transfers of the Kinmundy and Pinckneyville combustion turbine generators ('CTGs') from Ameren Energy Generating Company to AmerenUE by June 1, 2005, as* ***AmerenUE determines to be to its satisfaction and sole discretion.*** (Nelson Testimony, Page 6, Lines 1–6, emphasis added)

If AmerenUE does not find the conditions of the Metro East Transfer to be to its satisfaction and sole discretion, then the Metro East Transfer will not take place and AmerenUE will not be able to serve the Noranda load. These conditions include exclusion of the second JDA amendment.

It is important that the conditions set in the Metro East Transfer to protect Missouri ratepayers are not compromised in order for AmerenUE to serve the Noranda load.

Q WHAT IS THE RELEVANCE OF AN INTERRUPTIBLE RATE TO THIS ISSUE?

A AmerenUE will require additional capacity to serve the Noranda load. AmerenUE had a capacity-requirements interruptible rate until a few years ago. Service under this rate allows the utility to curtail load when it is reaching a peak. In short, it is a capacity resource. Furthermore, the Stipulation and Agreement from EC-2002-1 included a requirement for AmerenUE to "make its best efforts to increase the amount of demand response options (including interruptible load), by 200 megawatts . . . " (Stipulation and Agreement, EC-2002-1, Section 9, Page 9). AmerenUE has not been successful at this point.

Q WHY IS THIS AN ISSUE HERE?

A AmerenUE is now proposing to build 600 MW of gas-fired generation at an average cost of $471/kW to meet its capacity requirements to serve Noranda. AmerenUE may be able to meet some of this requirement at less cost through interruptible rates.

Q PLEASE SUMMARIZE THE IMPORTANCE OF THESE ISSUES AS THEY RELATE TO THE NORANDA PROCEEDING.

A These issues are important because all of them are related to the supply/demand balance of AmerenUE and the cost of serving AmerenUE's customers.

- Having AmerenUE serve Noranda as a regulated customer may have a different cost impact than serving it under a non-regulated contract.
- The Metro East Transfer may cost Missouri customers due to possible liability costs that are related to the generation assets that were used to serve the Illinois load.
- The benefit of the additional low-cost generation made available to Missouri customers from the Metro East Transfer may be lost due to the addition of the Noranda load.
- The first JDA amendment has been estimated to increase revenues allocated to Missouri ratepayers (and therefore reduce their costs) from $7 million to $24 million per year (Report and Order, EO-2004-0108, Page 22).
- The second JDA amendment may increase revenues to Missouri ratepayers by $10 million or more (Staff Response to AmerenUE's Application for Rehearing and Alternative Motion and Public Counsel's Application for Rehearing, Page 31). If these amendments are not agreed to by AmerenUE, current ratepayers will not see an increase in costs, but a reduction in future revenues that could offset future cost increases.
- Is the additional CTG capacity needed to serve Missouri's growing retail load or to serve Noranda's load? If it is not needed for current Missouri load, then why was the need for the transfer so urgent?
- Meeting Missouri's capacity requirements with demand response and/or interruptible load may be more cost effective than adding only CTG capacity.

The problem is that AmerenUE has tied all of these issues together, yet has made it difficult, at best, for the MEG to analyze the combined effect of these actions on ratepayers' costs.

Q WHAT IS THE MEG'S POSITION REGARDING THE NORANDA PROCEEDING?

A The MEG submits that there are reasons for concern that adding the Noranda load as a regulated customer will be detrimental to the interests of AmerenUE's customers in its current service territory.

Q WHAT IS THE MEG'S RECOMMENDATION REGARDING THE NORANDA LOAD?

A The Commission should require the Company to provide a complete and thorough analysis that takes *all* of the issues listed above into consideration when determining the effect of adding the Noranda load on AmerenUE ratepayers before making a decision on whether to extend AmerenUE's service territory to include Noranda.

Q IS THERE ENOUGH TIME FOR THE COMMISSION TO THOROUGHLY INVESTIGATE THE IMPACT OF NORANDA AND STILL MEET THE DEADLINE FOR THE COMMISSION'S DECISION ON MARCH 17, 2005?

A No. However, AmerenUE could agree to serve the Noranda load through a short-term contract which would provide all of the parties and the Commission the opportunity to adequately review all of the issues involved in this proceeding.

Q DOES THIS CONCLUDE YOUR TESTIMONY?

A Yes, it does.

Experience of Billie S. LaConte

Ms. LaConte joined Drazen Consulting Group, Inc. in May 1995. Her work has focused on cost allocation, rate design, sales and price forecasts, power cost forecasting, electric restructuring issues, cost of capital issues and contract interpretation.

Ms. LaConte has advised clients on economic and strategic issues concerning the natural gas pipeline, oil pipeline, electric, waste water and water industries. She has prepared cost allocation and rate design studies to provide timely support to clients engaged in settlement negotiations in electric and gas utility proceedings. She has provided power cost forecasting studies to assist clients in project planning, negotiating contracts with electric utilities for standby services and interruptible rates. She has prepared studies on electric and gas utilities' performance-based rates (PBR) and benchmarking programs to evaluate their success and to provide recommendations on methods to be used. Ms. LaConte has worked on contract interpretation to resolve contract disputes for several clients.

Ms. LaConte has provided economic and strategic analysis and contract interpretation for clients located in several jurisdictions, including Georgia, Maine, Iowa, Virginia, Alberta, Québec and Nova Scotia. She has provided financial and cost of service analysis for a natural gas pipeline's certificate approval from the Federal Energy Regulatory Commission (FERC). Ms. LaConte submitted and delivered expert testimony before the Missouri Public Service Commission on cost allocation, rate design, cost of capital and other matters. She testified before the Alberta Energy and Utilities Board on power cost forecasting issues, electric restructuring issues, sales and price forecasts and cost allocation issues. She has similarly testified before the Iowa Utilities Board, the St. Louis Metropolitan Sewer District Rate Commission and the Nova Scotia Utility and Review Board.

In 1989, Ms. LaConte received a B.A. in mathematics from Boston University, in Boston, Massachusetts. She has a M.B.A. in finance (1995) from the John M. Olin School of Business, Washington University, St. Louis, Missouri.

Drazen Consulting Group offers economic, strategic planning and regulatory consulting services to clients that include industrial utility users, municipalities, schools, hospitals, utilities and government agencies. The founding firm (Michael Drazen and Associates) was established in 1937.

The firm's work covers all aspects of utility regulation (and deregulation), including revenue requirements, cost of capital, cost analysis, pricing, valuation, performance-based regulation and industry restructuring.