

Exhibit No.:
Issues: Adjustment in Net Fuel
Expense for Under-
Forecasting Error
Witness: Michael S. Proctor
Sponsoring Party: MO PSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2008-0318
Date Testimony Prepared: November 5, 2008

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

MICHAEL S. PROCTOR

UNION ELECTRIC COMPANY d/b/a AMERENUE

CASE NO. ER-2008-0318

**Jefferson City, Missouri
November 2008**

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

AFFIDAVIT OF MICHAEL S. PROCTOR

STATE OF Missouri)
COUNTY OF Cole)

ss.

Michael S. Proctor, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Michael S Proctor
Michael S. Proctor

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

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016

Nikki Senn
Notary Public

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Q. What is your name and business address?

A. My name is Michael S. Proctor. My business address is 9900 Page Avenue, Suite 103, Overland, MO 63132.

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

A. I am employed by the Missouri Public Service Commission (Commission) as Chief Regulatory Economist in the Energy Department.

Q. Are you the same Michael S. Proctor who has submitted rebuttal testimony in this proceeding?

A. Yes, I am.

Q. On what issues are you filing surrebuttal testimony in this proceeding?

A. My surrebuttal testimony will address the rebuttal testimony of AmerenUE Witness Timothy Finnell. Mr. Finnell's rebuttal testimony addresses an adjustment to net fuel expense that he has described as a cost related to AmerenUE's under-forecasting the load it submits in the Midwest ISO day-ahead market.

Q. What is meant by under-forecasting load in the Midwest ISO day-ahead market?

A. The Midwest ISO has both a day-ahead and a real-time energy market for electricity. Market participants submit offers for generation and load in the day-ahead market

1 primarily for the purpose of improving the economics associated with committing generating
2 units to meet the demand expected for the next day. The day-ahead market is financially
3 binding – meaning that generators are paid the day-ahead prices and the utilities pay the day-
4 ahead prices for load. Then in real time, any deviations from the settled amounts in the day-
5 ahead market are cleared in the real-time market. For example, if the load submitted in the
6 day-ahead market is less than the load that actually occurs in real time, the cost of the
7 additional load is based on the price in the real-time market. The load submitted in the day-
8 ahead market is forecasted based on forecasted weather for the day ahead. Thus, when actual
9 load is greater than forecasted load, this difference can be described as an under-forecasting
10 error.

11 **Q. Why does AmerenUE incur a cost related to under-forecasting its load?**

12 A. Actually, AmerenUE can incur either a cost or receive a savings from under-
13 forecasting its load. If the real-time price is higher than the day-ahead price, then AmerenUE
14 must pay a higher price for its increase in actual load. However, if the real-time price is lower
15 than the day-ahead load, it will pay a lower price for its increase in actual load. Mr. Finnell
16 recognized this in his calculations by multiplying the under-forecasted load difference by the
17 difference between the real-time and day-ahead price in each hour and summing both the
18 costs and the savings for all of the hours. Mr. Finnell's calculations show that the net impact
19 of under-forecasting results in the costs being higher than the savings. This is the basis of Mr.
20 Finnell's adjustment to net fuel expense.

21 **Q. Do you agree with the adjustment submitted by Mr. Finnell in his rebuttal**
22 **testimony?**

1 A. No, I do not. Mr. Finnell's calculation did not take into account the changes in
2 generation that also occur in the hours when AmerenUE has under forecasted its load. I met
3 with Mr. Finnell to discuss this omission and Mr. Finnell agreed to put together additional
4 data on day-ahead and real-time generation.

5 **Q. Why do changes in generation between day ahead and real time need to be**
6 **taken into account in calculating losses from under-forecasting?**

7 A. Under-forecasting of load is highly related to deviations in actual weather from
8 forecasted weather. For example, on a summer day, the forecast for tomorrow may be for a
9 high of 89 degrees, but the actual high is 93 degrees. In this case actual load will be higher
10 than forecasted load. However, a utility having to meet that load will also have to dispatch
11 additional generation. So, if the load goes up by 100 megawatts, generation to meet that load
12 must also go up by 100 megawatts. In this non-market example, the increase in load is met by
13 the increase in generation.

14 **Q. Did you use the increase in day-ahead generation to offset the increase in**
15 **day-ahead load?**

16 A. Yes, this type of adjustment was calculated in the first attempt at making an
17 adjustment to the cost for under-forecasting load. However, in many of those hours the
18 increase in generation is greater than the increase in load because the real-time price is higher
19 than the day-ahead price. In order to capture this additional effect from increased generation,
20 the increase in generation times the difference between real-time and day-ahead prices was
21 calculated. However, there are several days on which the real-time generation decreased
22 because of an unexpected forced outage on one of AmerenUE's large base load plants. To

1 make a fair calculation, the decreases in generation that occurred need to be taken into
2 account as well as the increases.

3 **Q. What data did AmerenUE and Staff agree to use for the calculation of**
4 **costs associated with the under-forecasting error?**

5 A. We agreed to use the test year – twelve months ending March 31, 2008.

6 **Q. Based on the data from the test year, what was the impact of adding**
7 **changes in generation, both positive and negative, in the hours in which AmerenUE had**
8 **under-forecasted its load?**

9 A. For the 12 months from April 2007 through March 2008, the net revenue loss
10 from under-forecasting load was \$3,941,361. Adding the changes in generation reduced the
11 revenue loss from under-forecasting by \$92,146, resulting in a net revenue loss from under-
12 forecasting of \$3,849,215 for the test year. The Staff supports this calculation of the cost for
13 under-forecasting as an adjustment to net fuel expense.

14 **Q. Does AmerenUE agree with the Staff regarding the inclusion of changes in**
15 **generation in the analysis of the under-forecasting costs?**

16 A. In discussion with Mr. Finnell, my understanding is that AmerenUE agrees
17 with the results of these calculations.

18 **Q. Does this conclude your surrebuttal testimony?**

19 A. Yes, it does.