

Exhibit No.:
Issue(s): Lost Fixed Costs
Witness: Steven M. Wills
Sponsoring Party: Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

Case No. EU-2012-0027

SURREBUTTAL TESTIMONY

OF

STEVEN M. WILLS

ON

BEHALF OF

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

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

1 and 2010 loads, he argued that it should be adjusted to remove the additional energy
2 consumption that occurred on the added day in February during that leap year.

3 **Q. Do you agree with the need to make this adjustment?**

4 A. Yes, I do. This is appropriate and the lack of adjustment in the original
5 calculation was simply an oversight on my part. I concur with Mr. Carter's opinion on the
6 need for this adjustment, and the amount of the adjustment quantified in Mr. Carter's
7 testimony.

8 **Q. Please describe the second adjustment proposed by Mr. Carter.**

9 A. Mr. Carter indicates that the Company failed to remove fuel costs associated
10 with the line loss charge that is a part of Noranda's rate from the calculation. He contends
11 that these costs are variable and should not be included in the calculation of fixed costs that
12 went unrecovered.

13 **Q. Do you agree with Mr. Carter's assessment of the line loss charge?**

14 A. No, I do not. The way that the Company's rates were set in Case No.
15 ER-2008-0318, which are the rates relevant to the time period covering Noranda's outage, no
16 variable costs were assigned to be recovered in the loss charge that was billed to Noranda.
17 Therefore, there were no variable costs being collected pursuant to that charge.

18 **Q. Please explain why there were no variable costs embedded in the line loss**
19 **charge.**

20 A. The collection of the Company's variable – i.e. fuel – costs is governed by its
21 Fuel Adjustment Clause ("FAC") tariff. Specifically, the normalized level of fuel costs that
22 is embedded in base rates is established and then assigned to the MWh over which it is to be
23 collected in the calculation of the defined term NBFC (Net Base Fuel Costs). The numerator

1 of the NBFC calculation includes all of the prudently incurred fuel costs of the Company, as
2 determined in Case No. ER-2008-0318. The denominator of the NBFC calculation includes
3 all MWh of load to which fuel costs are allocated, which also was determined in the same
4 rate case. During Case No. ER-2008-0318, the calculation of MWh to which fuel costs were
5 allocated (the NBFC denominator) included all retail sales and the associated losses on the
6 Company's system (as measured by the Company's loss study). The losses in question here
7 are not losses on the Company's system but are, instead, line losses incurred on Associated
8 Electric Cooperative, Inc.'s ("AECI") system in the process of delivering power to Noranda.
9 Because these losses are not on the Company's system they were not included in the NBFC
10 calculation. Simply put, the exclusion of the AECI line losses from the NBFC calculation
11 specifically means that no variable costs were being collected through the Noranda loss
12 charge.

13 **Q. Please briefly explain why AECI's system is involved when Ameren**
14 **Missouri provides electricity to Noranda.**

15 A. Noranda's facility is not physically connected to Ameren Missouri's system.
16 Noranda takes service from the Company pursuant to a special contract that allowed them to
17 become a retail customer of the Company. However, due to their physical location, Ameren
18 Missouri must ship power across AECI's transmission system, where Noranda's load is
19 actually served. In using AECI's system, line losses are incurred by AECI. Ameren
20 Missouri provides additional power to AECI to compensate for those losses, and Noranda in
21 turn pays a line loss charge to the Company to account for the cost of the additional power
22 delivered to AECI.

1 **Q. What is the implication of the fact that the line losses on AECI's facilities**
2 **were not included in the calculation of NBFC in Case No. ER-2008-0318?**

3 A. The decline in retail sales to Noranda resulted in a reduction of variable costs
4 observed by the Company and the calculation of unrecovered fixed costs that I sponsored in
5 direct testimony took this reduction in variable costs into account. However, since there
6 were no variable costs assigned to the Noranda losses, the entire line loss charge was, by
7 necessity, covering only fixed costs. When Noranda's load declined due to the storm, the line
8 loss charge revenue that ceased to be realized left only fixed costs unrecovered. That means
9 that for the line loss charge attributable to the AECI facilities, there simply was no fuel cost
10 offset to be calculated.

11 **Q. Please summarize your conclusions.**

12 A. Mr. Carter of Staff identified two adjustments that he believed were necessary
13 to accurately measure the unrecovered fixed costs to the Company that resulted from the ice
14 storm that impaired Noranda's load. His first adjustment, to account for leap day, is
15 appropriate and the Company will adopt that adjustment to its position. The second
16 adjustment, the Noranda line loss adjustment, is inappropriate. There were no fuel costs
17 embedded in the line loss charge and therefore there were no variable cost savings due to the
18 reduction in losses.

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

20 A. Yes, it does.