# MISSOURI PUBLIC SERVICE COMMISSION

# FILE NO. ER-2014-0258

# SURREBUTTAL TESTIMONY

# OF

# STEVEN M. WILLS

# ON

# BEHALF OF

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

**St. Louis, Missouri**
**February 2015**

**TABLE OF CONTENTS**

## I.  INTRODUCTION

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

A.  Steven M. Wills, Ameren Services Company ("Ameren Services" or "Company"), One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

**Q.  What is your position with Ameren Services?**

A.  I am the Manager of Quantitative Analytics in the Corporate Planning Department.

**Q.  Are you the same Steven M. Wills who filed rebuttal testimony in this proceeding?**

A.  Yes, I am.

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

A.  The purpose of my surrebuttal testimony is to respond to one item in the rebuttal testimony of Missouri Public Service Commission ("Commission") Staff ("Staff") witness Sarah Kliethermes from the Noranda rate design section in which she addresses a term in Ameren Missouri's ("Company") Fuel Adjustment Clause ("FAC") tariff titled "Adjustment For Reduction of Service Classification 12(M) Billing Determinants."  For ease of reference in this testimony, I will refer to this term as "Factor N," which is the name used in previous versions of the FAC tariff.  I will also provide information and updates to the proposal in my rebuttal testimony to annualize the sales to

1    Noranda for the test year given the recommendations contained in the rebuttal testimony

2    of Staff witness John Cassidy to deny the Company recovery of the amounts associated

3    with the Accounting Authority Order ("AAO") and with the Noranda load reduction that

4    occurred in the 2009-2010 timeframe.

5              **II.      NORANDA RATE DESIGN TESTIMONY - FACTOR N**

6         **Q.      Can you please provide some background on the issue raised by**

7    **Ms. Kliethermes that you are addressing?**

8         A.      Office of the Public Council ("OPC") witness Lena Mantle has proposed

9    that Factor N should be removed from the FAC tariff, or in the alternative, that it should

10   be modified so that the operation of the tariff term should only provide for incremental

11   net off-system sales revenue to be used to offset lost fixed cost recovery rather than lost

12   revenues, should the load of Noranda drop significantly or cease operating entirely.

13        While not weighing in on the merits of Ms. Mantle's proposal, Ms. Kliethermes,

14   in that part of her rebuttal testimony addressing Noranda's rate proposal, attempted to

15   calculate what the contribution to fixed cost recovery would be if Ms. Mantle's proposal

16   were adopted.

17        **Q.      Is it necessary to establish that value in this proceeding?**

18        A.      No.  The FAC tariff already has a formula for calculating this value in the

19   event it becomes necessary to use Factor N.  There is no need to establish the amount of

20   fixed cost recovery that the formula would provide in advance.  In fact, any calculation in

21   advance could not be accurate but only illustrative, as the actual market price of energy

22   and volume of Noranda load reductions associated with the time period when such

23   reductions happen must be known to accurately calculate the value.

1      **Q.      Viewing Ms. Kliethermes' calculation as an illustrative example of**

2      **how Noranda's contribution to fixed costs would be determined using the Factor N**

3      **formula, do you agree with her approach and result?**

4      A.      No.  As detailed in the rebuttal testimony of Ameren Missouri witness

5      Lynn Barnes, the existing Factor N already accomplishes exactly what Ms. Mantle has

6      proposed; that is, to keep the Company whole with respect to the revenues it uses to

7      cover its fixed costs if Noranda experiences a load reduction, no more and no less[1].

8      Ms. Kliethermes' described approach fails to do this.

9      **Q.      How does Ms. Kliethermes' calculation fail to achieve the purpose of**

10     **Factor N?**

11     A.      Ms. Kliethermes has not calculated Noranda's full contribution to fixed

12     costs.  Her calculated "but for" costs only calculate the incremental contribution to fixed

13     costs above that which would be provided by the increase in net off-system sales revenue

14     that would be obtained by purchasing less energy in the MISO market to serve Noranda.

15     While this type of analysis is useful in assessing Noranda's proposal for rate relief, in that

16     it shows the *additional* fixed cost contribution Noranda makes beyond what could be

17     achieved in Noranda's absence, it is not appropriate for determining the *total* fixed cost

18     contribution of Noranda.  What Ms. Kliethermes' example misses is the fact that the

19     Company's net off-system sales revenues also make a contribution to the Company's

20     fixed cost recovery.  Fortunately, the method prescribed by the FAC tariff embodied by

21     Factor N and described in Ms. Barnes rebuttal testimony already takes this reality into

22     consideration.

---

[1]  If the market price of power is lower than Noranda's retail rate, the N Factor can actually provide less revenue than Noranda's retail bills and the Company is at risk for any resulting shortfall.

1    **Q.    What are the consequences of only utilizing the incremental**

2    **contribution to fixed costs, as Ms. Kliethermes has calculated?**

3          A.    Ameren Missouri would significantly under-collect revenues intended to

4    cover fixed costs in the event of a Noranda load reduction.

5          **Q.    Please summarize your conclusion with respect to this topic.**

6          A.    The testimonies of Ms. Mantle and Ms. Kliethermes both reflect

7    misunderstandings of the operation of Factor N in the FAC.  In fact, the tariff mechanism

8    that is in place already achieves exactly what Ms. Mantle's alternative proposal suggests

9    it should.  Ms. Kliethermes' attempt to provide a process for achieving Ms. Mantle's

10   suggested outcome is unnecessary, since the tariff already achieves that outcome.

11   Additionally, Ms. Kliethermes' methodology to determine Noranda's contribution to

12   fixed costs is incorrect.  It only recognizes incremental contributions of Noranda's

13   revenues toward fixed cost recovery beyond the level that would be provided by the

14   increase in net off-system sales revenue that results from reduced purchases of energy

15   from the MISO to serve Noranda's load, and not the total contribution that Noranda's

16   revenues make to the Company's ability to cover its fixed costs.

17               **III.    NORANDA LOAD ANNUALIZATION**

18         **Q.    In your rebuttal testimony, you presented information regarding a**

19   **recent load decline at Noranda and proposed that the decline be used to make an**

20   **annualization adjustment to the normalized level of revenues provided by Noranda**

21   **in the test year.  Does the proposal of Mr. Cassidy to deny recovery of the Noranda**

22   **AAO in this case have any implications with respect to this topic?**

1    A.    Yes.  The AAO that the Commission granted in order to cover the fixed

2    costs that Noranda's revenues did not cover because of the ice storm-related outage at

3    Noranda in 2009-2010 recognizes that the event in question was extraordinary and is

4    deserving of the unique treatment afforded by AAOs.  However, if recovery of the AAO

5    balance as an amortization in rates is denied, then it actually provides no relief to the

6    Company for the impacts of that event.  The load decline at Noranda in 2014, that I

7    described in my rebuttal testimony, is now the second time that the Company has

8    experienced a significant financial impact due to load variations at Noranda.  This 2014

9    decline, while material in terms of the financial consequences to the Company, was not

10   big enough to trigger the use of Factor N in the FAC to make the Company whole.

11   Again, if the AAO recovery is denied, there will then be multiple cases where Noranda

12   load declines have affected the Company financially and where the regulatory tools have

13   been insufficient to make it whole.  Given such history, it would then be even more

14   appropriate to normalize the level of sales made to Noranda in the trued-up test year.

15   Typically, in past cases, Noranda has been considered such a stable load that no

16   adjustment to test year volumes is made.  However, the assumption of stability has been

17   tested and now failed twice in just the past six years.  Since we now have a history that

18   demonstrates occasional material levels of variation in Noranda's load, normalizing that

19   load may well be warranted.

20   **Q.    Do you still recommend annualizing the load at a level consistent with**

21   **437 MW per hour of usage at Noranda?**

22   A.    Yes, I believe that it is the appropriate level to reflect for purposes of

23   setting rates based on the load at the time of the true-up.  However, should the

1    Commission choose not to utilize that methodology, a long-term average load factor

2    approach to normalizing Noranda's load could be used as an alternative.

3         **Q.      Please describe this approach.**

4         A.      Many adjustments made to rate case test year data for cost or revenue

5    categories that exhibit variability over time are made based on multi-year averages in

6    order to capture a realistic level of that item that can be expected to be observed over any

7    time period where rates may be in effect.  As described above, we now recognize that

8    Noranda's load for various reasons does exhibit some variability over time.  To normalize

9    for that variability, I have calculated the annual load factor of Noranda for each year

10   since they came onto Ameren Missouri's system in 2005.  Those historical load factors

11   are shown in Table SMW-1 below:

12                                    **Table SMW-1**

| Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 10 Yr Avg | 3 Yr Avg | Updated Test Year |
|------|------|------|------|------|------|------|------|------|------|------|-----------|----------|-------------------|
| Noranda Load Factor | 97 0% | 98.4% | 98.6% | 98.2% | 58.0% | 95.7% | 98.1% | 97.3% | 98.4% | 95.4% | 93 5% | 97.0% | 98.2% |

13        Clearly shown in this data is the fact that Noranda's load factor has varied from

14   year to year.  The most obvious case is the 2009 timeframe that was impacted by the ice

15   storm when the load factor was all the way down to 58%.  The most recent year, 2014,

16   shows the lowest load factor of any other year at 95.4% due to the issue with smelting pot

17   failures discussed in my rebuttal testimony.  But, even years with no notable reasons for

18   variation that I am aware of for reduced consumption, such as 2005 and 2012, can show

19   load factors a full percent lower than the 98.2% observed in the test year.  While a 1%

1   change in load factor might not sound like much for a customer as large as Noranda, such

2   a fluctuation can cause over a million dollars of revenue impact to the Company.

3   **Q.      What do you recommend based on this analysis?**

4   A.      As mentioned above, my primary recommendation is still to annualize the

5   load at the level observed as of the true-up date.  But should the Commission decline to

6   accept that adjustment, there should be a normalization adjustment to account for the

7   observed variability in Noranda's load over time.   If the Commission accepts the

8   Company's proposal to amortize the Noranda AAO in rates, it would be inappropriate to

9   also include the time period associated with that AAO in the normalization.  In that case,

10  I would recommend normalizing the updated test year loads to a 97% load factor based

11  on a three-year average of observations.  However, if amortization of the sums deferred

12  under the AAO is rejected and the 2009-2010 time period ultimately does not get carved

13  out for treatment as an extraordinary event, then it would be appropriate to utilize a

14  longer time period to capture the more extreme variations that can impact Noranda's

15  operations.  In that case, the ten-year average load factor of 93.5% should be used to

16  normalize Noranda's load.

17  **Q.      What are the updated test year sales to Noranda for each scenario you**

18  **have outlined that would be used for setting rates?**

19  A.      The adjusted test year load factors and sales I recommend are shown in

20  Table SMW-2 below:

1 **Table SMW-2**

|  | Load Factor | Annual MWh | Adjustment to Test Year MWh |
|---|---|---|---|
| Updated Test Year | 98.2% | 4,191,014 |  |
| Annualization to 437 MW/hour | 98.2% | 3,828,667 | -362,347 |
| 3 Year Average Load Factor | 97.0% | 4,139,345 | -51,669 |
| 10 Year Average Load Factor | 93.5% | 3,989,934 | -201,079 |

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

3 A. Yes, it does.

# BEFORE THE PUBLIC SERVICE COMMISSION
## OF THE STATE OF MISSOURI

In the Matter of Union Electric Company )
d/b/a Ameren Missouri's Tariffs to )     Case No. ER-2014-0258
Increase Its Revenues for Electric Service. )

## AFFIDAVIT OF STEVEN M. WILLS

**STATE OF MISSOURI**     )
                             ) ss
**CITY OF ST. LOUIS**       )

Steven M. Wills, being first duly sworn on his oath, states:

1.      My name is Steven M. Wills. I work in the City of St. Louis, Missouri, and I am employed by Ameren Services as Manager, Quantitative Analytics.

2.      Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Union Electric Company d/b/a Ameren Missouri consisting of _8_ pages, and Schedule(s) _____ N/A _____, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

3.      I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

_____
Steven M. Wills

Subscribed and sworn to before me this 6th day of _February_, 2015.

_____
Notary Public

My commission expires:

2-21-18

BECKIE J. EAVES
Notary Public - Notary Seal
State of Missouri
Commissioned for St. Louis City
My Commission Expires: February 21, 2018
Commission Number: 14938572