STINSON
MORRISON
HECKER LLP

Khristine A. Heisinger
(573) 556-3601
kheisinger@stinson.com
www.stinson.com

230 W. McCarty Street
Jefferson City, MO 65101-1553

Tel (573) 636-6263
Fax (573) 556-3633

October 20, 2009

VIA HAND DELIVERY

Chairman Robert M. Clayton III
Commissioner Jeff Davis
Commissioner Kevin Gunn
Commissioner Terry Jarrett
Commissioner Robert Kenney
Public Service Commission
Governor Office Building
200 Madison Street
Jefferson City, MO 65102

Re: Electric Utility RES Requirements Rulemaking
Section (5) Retail Rate Impact

Dear Chairman Clayton and Commissioners:

Our firm has been participating in the rulemaking process for the Renewable Energy Standards on behalf of Wind Capital Group. We and other stakeholders have expressed an interest in ensuring that the retail rate impact provision of the statutes be implemented via regulation in a manner that is in accord with the statutes and finds the proper balance between Missourians' expressed desire for renewable energy standards with a limitation on the costs ratepayers will bear. To that end, Wind Capital Group engaged consultants with ICF International, Inc. to conduct modeling of Alternative A of Section (5) of the draft rule, to identify any concerns with that language and to assist us in proposing changes to Alternative A that balance the interests as set forth in the statutes.

Attached you will find two documents. One document is a spreadsheet that includes a projection of the rate impact calculation as set forth in Section (5)'s Alternative A ("current draft language"). It also includes a projection based upon a modified Section (5) that we propose, which is a separate attachment ("our proposal")[1]. Other variations on the first two issues discussed below are also shown

[1] The redline is to staff's Revision 15, which we just received today.

in the attached spreadsheet. This spreadsheet is based upon actual AmerenUE public information from its latest IRP and rate filing and from other public data. Various assumptions are made for the purposes of illustrating the potential methods of calculating the rate impact.

We have identified four main issues with the Alternative A ("current draft language") that we have remedied in the attached redline to Alternative A ("our proposal"):

1. The retail rate impact should be forward-looking. As such, the retail rate impact should be calculated in an incremental manner versus a cumulative manner.

We are concerned that the current draft language calculates retail rate impact in a cumulative manner, resulting in a retail rate impact that vitiates the progressively higher portfolio standards. This would allow an interpretation of the 1% cap to nullify the renewable portfolio standard practically in its entirety. As demonstrated in the enclosed spreadsheet, electric utilities would be unlikely to even reach the first 2% portfolio standard using such a method. Our proposal clearly sets forth an incremental calculation and the results of such a method are demonstrated in the spreadsheet.

2. Average the retail rate impact as set forth in statute to account for the lumpiness inherent in RPS benchmarks and to make the process more consistent with the IRP process. Average the retail rate impact over a ten year horizon.

Both of the above methods show the importance of averaging the retail rate over time for impact purposes in order to give any meaning to the RES adopted by the people of Missouri. Moreover, this averaging is specifically included in § 393.1030.2(1) as well as § 393.1045, and should be included in the rule. Although Integrated Resource Planning has a 20 year horizon, a ten year horizon seems to be an adequate time period to address the issue of "lumpiness" and comply with the statute's requirement of averaging. The enclosed spreadsheet shows both the cumulative method and the incremental method with a ten year averaging applied.

3. Avoid re-modeling for the sole purpose of retail rate impact calculations.

We believe that there is sufficient data in Integrated Resource Planning so that calculating the retail rate impact does not have to be a new process, adding costs to RES compliance. It should be a simple method that does not require re-modeling.

4. Ensure compliance with the statutory mandate in § 393.1030.2(1) by specifically including future environmental regulatory risks in the non-renewable projection.

This is simply notably absent in the current draft language. Our proposal ensures that the benefits of avoiding fuel price volatility is included and that avoidance of CO^2 emissions costs are included in the renewable projection. We propose the lower of the cost per ton of CO^2 or the cost of CO^2 reduction technology.

We appreciate all the work the Commission staff has done on these rules. We remain concerned about the retail rate impact language, however, and are submitting the proposed language modifying the current draft of section (5) and the spreadsheet in the desire to have greater clarity in this part of the regulation and avoid, even unintentionally, vitiating the portfolio standard by choices made in the application of the 1% retail rate impact provision.

Sincerely,

STINSON MORRISON HECKER LLP

Khristine A. Heisinger

Enclosures

cc: Michael Taylor

From Revision 15
Alternative A redline

(5) Retail Rate Impact.

(A) The retail rate impact, as calculated in 5 (B), may not ~~at any time~~ exceed one percent (1%) for prudent costs of renewable energy resources directly attributable to RES compliance. The rate impact shall be calculated on an incremental basis for each addition of renewable generation through procurement or development of renewable energy resources, averaged over a ten-year period, and shall exclude renewable energy resources under contract prior to the effective date of this regulation and renewable energy resources previously determined not to exceed the 1% threshold~~for each calendar year~~. ~~The limit of this section is applicable to cost recovery i accordance with section (6) of this rule or through a rate proceeding outside or in a general rate case.~~

(B) The RES retail rate impact shall be determined by subtracting the total retail revenue requirement incorporating an incremental non-renewable generation and purchased power portfolio from the total retail revenue requirement including an incremental RES-compliant generation and purchased power portfolio. The non-renewable generation and purchased power portfolio shall be determined by adding to the utility's existing generation and purchased power resource portfolio, ~~excluding all renewable energy resources,~~ additional non-renewable resources sufficient to meet the utility's needs on a least-cost basis. The RES-Compliant portfolio shall be determined by adding to the utility's existing generation and purchased power resource portfolio an amount of renewable resources sufficient to achieve the standard set forth in Section (2) of this rule, and an amount of least-cost non-renewable resources, the combination of which is sufficient to meet the utility's needs ~~with the same reliability as the non-renewable portfolio~~. These renewable energy resource additions will utilize the most recent electric utility integrated resource planning (IRP). These comparisons will be conducted utilizing ~~modeling consistent with electric utility resource planning in accordance with 4 CSR 240-22. This modeling shall consider any costs or benefits attributed to the replacement of existing renewable energy resources~~ projections of the incremental revenue requirement for new renewable energy resources, less the avoided cost of fuel not purchased for non-renewable energy resources due to the addition of renewable energy resources. In addition, the projected impact on revenue requirements by renewables shall be reduced by the cost of CO2 emissions reductions, assuming that such reductions are made at

the then-current cost per ton of CO2 allowances or the cost of CO2 reduction technology, whichever is lower. . Any variables utilized in the modeling shall be consistent with values established in prior rate proceedings or RES compliance plans, unless specific justification is provided for deviations. The comparison of the rate impact of renewable and non-renewable energy resources shall be conducted only when the electric utility proposes to add incremental renewable energy resource generation through the procurement or development of renewable energy resources.

(C) Rebates made during any calendar year in accordance with Section (4) of this rule shall be included in the cost of generation from renewable energy resources.

(D) For purposes of the determination in accordance with subsection (B) of this section, if the revenue requirement including the RES-compliant resource mix, averaged over a ten-year period, exceeds the revenue requirement that includes the non-renewable resource mix by more than 1%, the utility shall adjust downward the proportion of renewable resources so that the revenue requirement differential does not at any time exceed 1%. In making this adjustment, the solar requirement shall be in accordance with subsection (2)(F) of this rule. Prudently incurred costs to comply with the RES standard, and passing this rate impact test, may be recovered in accordance with Section (6) of this rule or through a rate proceeding outside or in a general rate case.

(E) Costs or benefits attributed to compliance with a federal renewable energy standard or portfolio requirement shall be considered as part of compliance with the Missouri RES.

RETAIL RATE IMPACT MODEL FOR AMEREN UE

PRELIMINARY DRAFT

ALTERNATIVE A

			2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
RENEWABLE DEMAND																									
Retail Sales (GWh)	2.0%		37,980	36,081	36,803	37,539	38,289	39,055	39,836	40,633	41,446	42,275	43,120	43,983	44,862	45,759	46,675	47,608	48,560	49,531	50,522	51,533	52,563	53,614	54,687
RPS Requirement				0%	0%	2%	2%	2%	5%	5%	5%	5%	10%	10%	10%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
RPS Needs (GWh)				-	-	751	766	781	1,992	2,032	2,072	2,114	4,312	4,398	4,486	6,864	7,001	7,141	7,284	7,430	7,578	7,730	7,884	8,042	8,203
Non-Renewable Retail Sales			37,980	36,081	36,803	36,788	37,524	38,274	37,845	38,601	39,373	40,161	38,808	39,584	40,376	38,896	39,673	40,467	41,276	42,102	42,944	43,803	44,679	45,572	46,484
SUPPLY/PROCUREMENT OPTIONS																									
Build and Own																									
Wind Capital Costs ($/kW)	2,050			2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050	2,050
Annual Capacity Factor of Wind				0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33
RPS Driven Average Capacity Needed (MW)						200	265	270	689	703	717	731	1,492	1,521	1,552	2,374	2,422	2,470	2,520	2,570	2,622	2,674	2,727	2,782	2,838
Cost of Capacity (Millions)				-	-	532	543	554	1,412	1,441	1,470	1,499	3,058	3,119	3,181	4,866	4,965	5,064	5,165	5,269	5,374	5,482	5,591	5,703	5,817
Levelized Cost of Generation ($/MWh)				61	63	64	66	67	93	96	98	101	103	106	108	111	114	117	120	123	126	129	132	135	139
Enter Into PPA																									
Purchase Price ($/MWh)				61	63	64	66	67	93	96	98	101	103	106	108	111	114	117	120	123	126	129	132	135	139
Annual Capacity Factor for Wind				0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.33
RPS Driven Average Capacity Needed (MW)						200	265	270	689	703	717	731	1,492	1,521	1,552	2,374	2,422	2,470	2,520	2,570	2,622	2,674	2,727	2,782	2,838
Capacity Needed (MW)						300	300	300	600	600	600	600	1,600	1,600	1,600	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Payments Under PPA (Millions)				-	-	56	57	58	218	222	227	233	477	489	501	964	988	1,012	1,038	1,064	1,090	1,117	1,145	1,174	1,203
RETAIL IMPACT TEST																									
Revenue Requirement Under Non-Renewable Case																									
Base Revenue Requirement (Millions)			2,222	2,222	2,244	2,266	2,288	2,311	2,333	2,356	2,379	2,403	2,426	2,450	2,474	2,498	2,523	2,547	2,572	2,597	2,623	2,649	2,675	2,701	2,727
Percent increase	2.0%																								
Additional Revenue Requirement Due to Environmental Retrofits				-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Incremental cost	TBD																								
Depreciation of Base Revenue Requirement				22	22	23	23	23	23	24	24	24	24	24	25	25	25	25	26	26	26	26	27	27	27
Percent decrease	1.0%																								
Net Base Revenue Requirement				2,200	2,222	2,243	2,265	2,288	2,310	2,333	2,355	2,379	2,402	2,425	2,449	2,473	2,497	2,522	2,547	2,572	2,597	2,622	2,648	2,674	2,700
Revenue Requirement Under Renewable Case																									
Utility Avoided Cost ($/MWh)				27	33	35	36	37	57	58	62	68	70	74	78	83	84	91	97	100	107	113	119	126	130
Utility Avoided Cost (Millions)						30	32	32	131	135	143	153	325	341	359	717	726	792	839	867	926	981	1,032	1,093	1,124
Revenue Requirement Under Cumulative Scenario				2,200	2,222	2,269	2,291	2,314	2,395	2,419	2,439	2,458	2,554	2,573	2,591	2,720	2,759	2,742	2,748	2,768	2,761	2,759	2,761	2,754	2,779
Revenue Requirement Under Incremental Scenario				2,200	2,222	2,266	2,265	2,288	2,369	2,334	2,353	2,374	2,475	2,421	2,443	2,578	2,512	2,481	2,525	2,569	2,565	2,594	2,625	2,641	2,698
Delta (Renewable Less Non-Renewable Option) Cumulative				-	-	26	26	26	88	88	84	80	153	148	142	247	262	221	199	196	165	136	113	81	79
Delta (Renewable Less Non-Renewable Option) Incremental				-	-	26	(0)	1	59	1	(3)	(4)	73	(5)	(6)	105	15	(41)	(22)	(3)	(32)	(28)	(23)	(33)	(21)
% RENEWABLE IMPACT (Cumulative)				0.00%	0.00%	1.15%	1.13%	1.15%	3.68%	3.70%	3.56%	3.35%	6.36%	6.11%	5.80%	9.98%	10.47%	8.75%	7.82%	7.64%	6.34%	5.20%	4.28%	3.01%	2.92%
% RENEWABLE IMPACT (Incremental)				0.00%	0.00%	1.15%	-0.01%	0.03%	2.54%	0.06%	-0.11%	-0.18%	3.04%	-0.19%	-0.25%	4.24%	0.59%	-1.63%	-0.84%	-0.10%	-1.23%	-1.07%	-0.87%	-1.22%	-0.08%
% RENEWABLE IMPACT (Cumulative with 10-year averaging)				0.00%	0.00%	0.11%	0.11%	0.11%	0.48%	0.48%	0.48%	0.48%	1.12%	1.12%	1.12%	2.00%	2.00%	2.00%	1.63%	1.63%	1.63%	1.63%	1.06%	1.06%	1.06%
% RENEWABLE IMPACT (Incremental with 10-year averaging)				0.00%	0.00%	0.11%	0.11%	0.11%	0.37%	0.37%	0.37%	0.37%	0.67%	0.67%	0.67%	0.98%	0.98%	0.98%	0.73%	0.73%	0.73%	0.73%	0.42%	0.42%	0.42%
% ALLOWABLE RENEWABLE IMPACT				1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

Revenue Requirement under Cumulative Scenario (Row 62): A + B – C where

A = Net Base Revenue Requirement of year in question (Row 54)

B = Payments Under PPA of year in question (Row 41)

C = Utility Avoided Costs of year in question (Row 60)

Ex: 2012: A=2,265 B=57 C=32 so 2,265+57-32= 2,291 (rounded)

Compare:

Revenue Requirement under Incremental Scenario (Row 64) for 2012:

A + (2012 B – 2011B) – (2012C – 2011C) = 2,265 + (57–56) – (32–30)

= 2,265 + 1 – 2 = 2,265 (rounded)